The National Center for Nutrition Leadership

Leadership Community Newsletter

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The quarterly Leadership Community Newsletter provides news and information you can use to help your Senior Nutrition Program reach its fullest potential.

When nonprofits focus on risk management (if they focus on it at all), they too often view it in terms of crisis – and their ability to react to funding cuts, accidents and other unexpected events. While it is important to learn to expect and prepare for the unexpected, it is equally important to have a strategic view of risk. Organizations must grow and innovate to survive over the long-term. Yet, new initiatives necessarily involve taking calculated risks. Leaders need to understand how to assess and understand risk in order to move forward with successful strategies that will advance their mission.

The articles in this issue of the *Leadership Community Newsletter* will examine both sides of the risk management spectrum – not only providing a framework for assessing risks and protecting your organization but also discussing practical ways to link risk and strategy as you plan for the future.

INSIDE THIS ISSUE

Note: The following articles are reprinted verbatim and with the permission of the sources cited unless otherwise noted.

What is a Risk Assessment?

Leslie T. White, CPCU, ARM, CIC, CRM

Risk assessment is a valuable risk management tool in managing the dangers or risks that threaten an organization. The ultimate risk management goal is to protect the organization, its employees, volunteers, donors, clients and others from harm. One way to achieve that goal is to identify the ways harm can occur and take measures to avoid or minimize its impact.

The risk management process begins with a risk assessment that identifies and analyzes the risks or exposures that an organization faces. A risk assessment is a *systematic procedure* that examines the different facets of an organization's operations. The risk assessors or team divides and reviews the different operational areas. The team focuses on the board, physical plant, financial controls, human resources, fund raising, health and safety, and other categories that will identify the organization's exposures. An organization's full commitment to the assessment will help it identify all exposures, since an unidentified exposure is a loss waiting to happen.

Organizations can use many *different methods to* identify its loss exposures. Options include a risk assessment survey or questionnaire, review of the organization's loss experience, analysis of financial statements, review of internal documents and records, operational flowcharts, personal inspections of the organization's facilities and operations, and use of outside experts. An organization can also inventory its assets as physical, financial, human resources and reputational to identify its exposures. The team can also categorize the exposures by *type of loss* — property (tangible and intangible), net income (loss of revenues or increase in expenses), personnel, and liability.

Analysis of the identified exposures is the next step. First, consider the possibility of how often the event might occur (frequency). Second, determine the probable size of the loss (severity) if it does occur. The organization should address the risks with the largest severity and highest frequency factors first. Through analysis, the organization sets its priorities for addressing its exposures.

After the risk assessment, the risk management team *evaluates the options* for addressing the exposures. The team establishes a program for setting up and monitoring the selected risk management techniques. Since organizations are dynamic, risk management, especially risk assessment, is an *ongoing process*. As the organization changes, it must modify its risk management program to meet the new challenges.

Leslie T. White is the founder and president of Croydon Consulting, LLC. She brings more than 30 years' experience within the insurance and risk management industry to the table. For the last 10 years she has chosen to specialize in serving nonprofits as a consultant. She also serves on several boards of nonprofit organizations. http://croydonconsult.com/risk-assess.htm

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The key to risk-taking is knowledge.
~ Stuart Wilde

Risk Management:
A Nonprofit Board Member's View

Mark Murovitz

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines risk management as follows:

> "Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance of the achievement of entity objectives."

Historically, nonprofit board members tended to view risk management as the need to ensure that the entity has sufficient insurance coverage. In this new age of board member accountability, risk management needs to fit the COSO definition.

The nonprofit board, through the efforts of its members, must understand the types of events that might push the organization into a condition where achievement of its mission, its financial health and its support from the community may be compromised.

What should the board consider as it looks at its future risks? Some important considerations:

- Does it understand the professional management team, its strengths and weaknesses and the succession mechanism in place for all of the key roles in the management hierarchy?
- Does it know the requirements for the financial security of the organization? Important information on key revenue sources and major donors must be part of the information evaluated in determining the organization's future financial security.
- Has it considered the impact on the entity's goodwill that will be made with each major decision involving changes in strategy?
- Have changes to current strategies been proposed by management? If so, the board must address the financial, operational and constituent ramifications.
- Is it time to elect new members to the board? If so, it must ascertain what skills and knowledge are required to keep the board relevant to the challenges the organization faces.
- Has it kept in mind that, at the end of the day, the board is responsible and accountable for the organization and its overall well-being?

No one expects every strategic and operational initiative to succeed. The board meeting is the venue where success and failure are considered. If it has not looked at the ramifications of a failed initiative, the board has not addressed its risk management responsibility. The board has the task of challenging new and revised strategies proposed by management or others.

In its risk analysis, the board needs to understand the metrics for measurement of mission fulfillment. The profit analysis of the commercial world does not exist for nonprofits; yet government, significant donors and others are critically interested in proof of effectiveness.

As the organization evolves and changes, the board has to track these changes into the effect on the mission. Development of a metric system that is responsive to the mission is critical for the board to understand various components of the risk equation. Should changes occur in the services provided, funding sources of the past may not desire to continue their participation.

Recent corporate failures indicate that those companies' boards were not up to the challenge of risk management. Those boards acquiesced to new strategic directions without challenging management's assumptions. In your nonprofit entity, new strategies and operational changes require the board's critical eye. The board must provide the oversight that its constituents expect, without micromanaging the professionals who make up the organization's management.

A risk management program does not seek to eliminate all of the risk in your organization but instead provides a framework for understanding and balancing risks that are inherent in operating a nonprofit organization.

Additionally, this program is the most effective method for aiding the organization's professional staff in dealing with those risks.

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The first step in the risk management process is to acknowledge the reality of risk. Denial is a common tactic that substitutes deliberate ignorance for thoughtful planning.
~Charles Tremper

Leaders and Risk: What You Need to Know

Melanie Lockwood Herman

The Board and Risk

The members of a nonprofit board have ultimate responsibility and authority for the mission, values, goals and strategies of the organization. An important, but often overlooked aspect of the board's responsibility is risk oversight. The board's risk oversight responsibilities include determining the organization's appetite for risk taking, and approving its approach to managing risk within that appetite. The risk appetite of a nonprofit is determined through careful deliberation about the risks the organization is willing to take in order to advance its mission. Risk appetite is generally reflected in the nonprofit's policy and strategy setting activities.

A nonprofit's risk appetite should influence, if not drive the board's selection of core strategies to advance the mission of the organization. What risks are we willing to take or accept in order to achieve our goal of doubling the number of clients we serve or number of volunteers ready to serve? What risks are we willing to bear in order to deliver nutritious meals to clients in hard-to reach areas of our community?

Unfortunately, many nonprofit boards are "stuck" in an old-fashioned view of risk. They wrongly believe that "risk" is the potential harm the organization may suffer. With this view, risk-related activity is limited to reducing the likelihood of harm or loss. Discussion about risk management focuses solely on reducing the number of complaints, traffic accidents, or non-renewing donors. A better way to look at risk is to think of risk as the chance of something occurring that will impact, positively or negatively, the nonprofit's mission-advancing objectives. The opportunity to partner with a local business or another social services agency is a risk that may…or may not be within the nonprofit's comfort zone.

Focus on Key Questions

A practical way to inspire the board to accept and discharge its risk oversight responsibility is to add questions about risk and strategy to the board's agenda. It is best to tackle these questions at the beginning of the meeting, when minds and bodies are fresh. Possible questions include:

- What risks did we take this year that paid off? What have we learned?
- What risks did we take this year that did not pay off? What have we learned?
- Did we experience "near-misses" this year? How did we respond? What did we learn?
- How closely did our results track to our plans? To what do we attribute the variations?
- What big risks should we consider to advance our mission in the coming year?
- What additional information will we require to weigh the potential benefits against the downsides?
- What sources should we consult to obtain the information or expert opinions we require?

The questions above are far more likely to inspire the board about its risk-taking and risk management responsibilities than a line by line review of the nonprofit's insurance coverage. Engaging the board in a discussion of risk and strategy serves several purposes. First, it will begin to change the board's perspective on its risk oversight role. Second, it's a terrific way to tap into the diverse perspectives that are common to nonprofit boards. A typical nonprofit board consists of members who see the world, the nonprofit, and risks rather differently. Healthy organizations welcome board members with differing views and encourage candid discussion about the wide range of options when it comes to delivering the nonprofit's mission.

Confidence, Not Fear

A risk-aware board approaches its critical oversight responsibility with confidence, not fear. Keep in mind that staff play a key role in keeping the boards they serve informed and apprised about the risks they see in the nonprofit's present and future. But having diligent and bright staff does not absolve the board of its risk oversight role. And diverse boards are certain to bring a perspective on risk that differs from the perspective of staff. Armed with the commitment to uncover, understand and act on risk—both its upside and downside aspects—a nonprofit board is in the best possible position to focus with confidence on the mission, values and goals of the organization.

Melanie Herman is Executive Director of the Nonprofit Risk Management Center, a nonprofit resource organization serving nonprofits in the U.S. and internationally. The Center publishes a weekly e-news, delivers monthly webinars, and offers consulting help. Melanie is the author of numerous books on risk management topics, including Ready or Not…A Risk Management Guide for Nonprofit Executives. *Melanie welcomes your feedback on this article or questions about the Center's resources at* Melanie@nonprofitrisk.org *or (202) 785-3891.*

Progress always involves risks. You can't steal second base and keep your foot on first.
~ Frederick B. Wilcox

Nonprofit Boards:
Managing the Risk of Governance

Nonprofit Risk Management Center

What is the board's role in controlling risk?

The primary responsibility of a nonprofit board of directors is to guide the organization in accomplishing its mission. In fulfilling this obligation, the board has a legal duty to utilize the organization's assets prudently. The assets of a nonprofit vary, but generally fall within one of the following categories: *people* (board members, volunteers, employees, clients, donors, and the general public), *property* (buildings, facilities, equipment, materials, copyrights, and trademarks), *income* (sales, grants, and contributions), and *goodwill* (reputation, stature in the community, and the ability to raise funds and appeal to prospective volunteers). The board's oversight role empowers it to exercise tremendous influence in ensuring that these core assets are protected — and used solely to further the goals of the organization.

To discharge its important responsibility for the health of a nonprofit, an effective board provides leadership and direction for an agency's overall risk management program. This includes paying close attention to the risks inherent in the board's governance activities.

Through failure to act or through missteps, the board may expose the organization's assets to losses and thus prevent the organization from achieving its mission. When the board takes the lead in protecting the organization's assets, however, it supports the successful operation of the organization and helps to ensure the agency's positive impact in the community for many years to come.

The principal risk management goals for most nonprofits are:

- Protecting clients, staff, volunteers and the general public from harm;
- Conserving the agency's assets for its community-serving mission; and
- Ensuring that resources are available to compensate individuals should they be harmed by the organization's activities.

The board is uniquely positioned to protect a nonprofit against potential risks by:

- Establishing long-term goals and short-term objectives for the nonprofit's programmatic initiatives, board and staff;
- Measuring performance against established goals and objectives;
- Approving an action plan to meet the organization's goals and objectives, and delegating responsibility for implementation of the plan to the nonprofit's chief executive;
- Monitoring the implementation of the action plan;
- Ensuring the availability and proper use of funds to support administrative and programmatic activities through active participation in fundraising programs and the development and monitoring of financial management and fundraising policies; and
- Directing necessary changes in focus and monitoring the impact of these changes.

What are the legal duties of nonprofit boards?

The members of a nonprofit board are required by law to discharge their responsibilities with the care that an ordinarily prudent person would demonstrate under similar circumstances. This standard of care is often described as encompassing the duty of care, the duty of loyalty, and the duty of obedience.

The duty of care requires that a director be reasonably informed about matters before the board; participate in the decisions of the governing body; and participate in good faith while exercising the care of an ordinarily prudent person under similar circumstances. A director of a nonprofit discharges the duty of care by:

- Attending regularly scheduled meetings and actively participating in discussions and decisions affecting the organization.

- Staying abreast of key developments and informed about matters affecting the nonprofit.
- Requesting additional information from staff as required for informed decision-making.
- Exercising independent judgment and reasonable care in decision-making, regardless of his or her perceived role as the representative of a group or interest, and without regard to personal motivation for board service.
- Prudently selecting staff and delegating responsibility to staff as appropriate.
- Acting in good faith and in the best interests of the nonprofit.
- Adopting and adhering to rules of procedure which govern the degree of formality for board decision-making.

The duty of loyalty requires that a nonprofit board member give undivided allegiance to the nonprofit when making decisions affecting the organization. A director of a nonprofit discharges the duty of loyalty by:

- Refraining from using information acquired as a member of the board for personal advantage.
- Recognizing potential conflicts of interest, disclosing such conflicts as appropriate, and abstaining from decision-making until conflicts of interest are resolved.
- Treating as confidential matters concerning the nonprofit.

The duty of obedience requires that a director be faithful to the nonprofit's mission, and act in a manner that is consistent with the mission and goals of the organization. A director discharges the duty of obedience by:

- Monitoring the organization's activities to ensure that administrative and programmatic activities are consistent with underlying mission and goals.

What other steps should the board take to control risk?

In addition to fulfilling their principal duties as required by law, boards of directors can control the risks associated with their governance function by adopting a number of operational practices. Suggested practices are outlined below:

Carefully select the Chief Executive Officer. The delegation of responsibility for day-to-day management should be made with care. This care begins with the thoughtful selection of a chief staff executive, commonly referred to as the CEO. The board's ability to fulfill its legal duties and risk management responsibilities will largely depend upon the competence, skills and cooperation of the CEO.

In recognition of a range of liability concerns, the board should receive legal advice about recruiting and hiring a chief executive. In addition, if the board decides to negotiate an employment contract with its new CEO, the parties to the contract (the board and the CEO) should both seek counsel.

Oversee employment practices. While the board's responsibility for hiring generally ends in the selection of the CEO, its overall responsibility for the employment practices of the nonprofit extend a great deal further. Employment-related actions are the largest source of claims filed against boards of directors under directors' and officers' (D&O) insurance policies.

The board's role is not to micromanage every action taken by the executive director. Rather, the board is acting appropriately and within its sphere of responsibility when it questions whether the agency's employment practices are applied consistently and uniformly and in accord with board established employment policies. In addition, members of the board should ask what steps are being taken to prevent unlawful discrimination or other actions that could result in agency liability (for example, through the training of supervisory staff) and take action when they feel such practices should be strengthened or revisited.

Oversee financial management and fundraising policies. Nonprofit boards are often described as "fiduciaries" entrusted by the public with charitable funds. Few nonprofit board members are experts in nonprofit finance, nor is it necessary to require financial management skills among prospective board members. In order to discharge their fiduciary duties as well as the duty of care, board members must be committed and diligent in reviewing information related to the organization's financial position. After establishing goals and objectives and approving an action plan, the board should approve an annual budget to carry out the plan.

The board further discharges its responsibility for financial management by reviewing financial statements prepared by staff on a regular basis and questioning whether expenditures are consistent with the programmatic priorities and operating policies established by the board. Is the organization on a sound financial footing? Are the revenue projections developed by staff realistic? Do the financial statements present a clear picture of the financial condition of the agency?

Fundraising is one area in which nonprofit boards are generally most active at the operational level. Nonprofit board members' ability to raise funds or access potential donors is often considered in their selection. The board's role in managing fundraising and development-related risks includes developing policy for fundraising strategy and practices. For example, does the nonprofit reject unsuitable gifts? Does it have procedures in place to account for the "strings" attached to certain donations? Are policies and controls in place to ensure that funds will be spent in accordance with the provisions of restricted grants?

Inquire about and review directors' and officers' (D&O) coverage. D&O policies have evolved considerably over time to meet the needs of nonprofit organizations. While some nonprofits continued to purchase traditional corporate D&O policies, most select policies that respond to the unique exposures facing nonprofits. Board members should be knowledgeable about the agency's D&O coverage and request information that will enable them to evaluate whether the coverage purchased by the organization is appropriate and responsive to the nonprofit's exposures.

For example, will the insurer advance defense costs or will the nonprofit be required to pay counsel and wait to be reimbursed after the claim has been resolved? Does the policy contain a broad definition of insured or is coverage limited to current directors and officers? Does the policy provide broad coverage for employment practices liability or exclude employment-related claims? Given the growing number of claims files against nonprofit organizations and their boards (principally in the employment practices area), the current competitive marketplace for D&O coverage, and most nonprofits' lack of a reserve fund, nearly every nonprofit can benefit from buying a D&O policy.

Adopt and follow procedures. "Good procedures, regularly followed" could be the risk management mantra for any nonprofit. A number of policies and procedures can be invaluable to a board as it strives to fulfill its legal duties and risk management responsibilities. These include the use of position descriptions for board members and an annual self-evaluation process, as well as the adoption of conflict of interest policies, attendance policies, and board minute taking procedures.

The Nonprofit Risk Management Center publishes books and pamphlets on a range of liability, risk management, and insurance topics.
Link:
http://www.coveragefirst.com/portal/server.pt/gateway/PTARGS_0_21939_410330_0_0_18/RISKfacts-NonProfitBoards(1).htm

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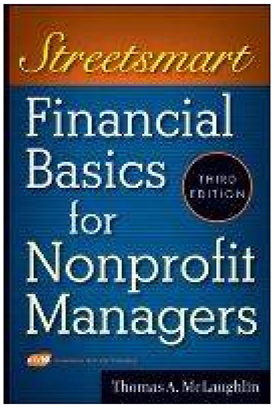
Defending yesterday -- that is, not innovating -- is far more risky than making tomorrow.
Peter Drucker

Book Review: Streetsmart Financial Basics for Nonprofit Managers

Thomas A. McLaughlin



How many accountants become executive directors of nonprofit organizations? I don't know any.

Managers and executives of nonprofits almost invariably come from the program side of the organization. They know how to design and deliver programs and services, curate art shows, heal patients, do academic research, perhaps even how to raise funds. What they are almost always weak on is finance. And, in the age of accountability, finance is too important to just trust to the accountant. It is a management tool that, when used well, can make or break an organization.

Streetsmart Financial Basics for Nonprofit Managers is a must-read for new nonprofit executives, the new board president, or even a large donor who wants to understand the organization he is entrusting his money to.

Thomas McLaughlin learned his financial smarts the hard way. He has been a nonprofit manager, a board member, and now a consultant. He is not an accountant. That means that he understands the confusion and lack of financial knowledge so many nonprofit managers bring to their position. He also has the ability and talent to explain complex financial material to the layperson.

Streetsmart Financial Basics is not a how-to book as much as it is a philosophical, historical, and leadership look at how nonprofits are set up and operated. It is less about bookkeeping than about strategic planning.

Among the many useful aspects of this book is a chapter entitled "Accounting as a Second Language - a Nine-Point Program." MacLaughlin leads the reader through the basics of nonprofit finance without overwhelming us. He explains concepts and principles with broad brushstrokes that allow us to remain above the fray of double entry bookkeeping. We learn the why more than the how.

After that grounding, the reader tackles balance sheets. The author explains what they are and why they are important and takes us through a 990 (that is the nonprofit's tax return). Since the 990 is the most easily accessible nonprofit financial document, McLaughlin wisely uses it as the basis for his explanations.

Once the reader understands the 990 and the concept of the balance sheet, McLaughlin provides a chapter on financial analysis. He provides simple-to-do methods to find out what makes a nonprofit tick and ways to determine how well it is ticking. Relatively simple ratios are provided and explained. We also learn what is normal and what are red flags. Such terms as cash flow to total debt, debt to net assets and total margin are demystified and made relevant to the manager's work.

We learn about audits, how to read one, and how to purchase audit services. We also engage in a serious discussion of nonprofit profits, why they are important, and why we should have them. We also investigate cash flow management and learn why capital is not evil but good, even for a nonprofit. We dip into risk management, setting up good financial controls so fraud will not eat into our precious resources, and how planned giving vehicles work.

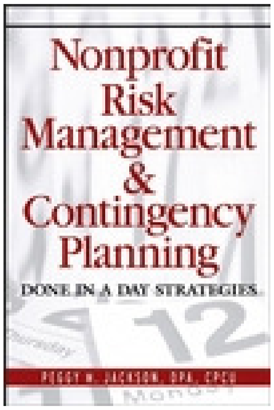
Finally, McLaughlin introduces us to a new world of nonprofit management...that of performance management. He suggests ways that financial systems can look forward rather than backward and help the organization fullfill not only its accountability requirements but also boost and support performance.

This book will not be the last one you read on financial management but it is a very good start. You will learn enough to start to communicate with your finance people and to ask the right questions. I am pretty math-phobic and I found the book quite understandable and fascinating enough to keep me reading late into a couple of nights.

As a manager, or an adviser, or a donor, you are a consumer of financial information. McLaughlin's book will make you a smart consumer.

Nonprofit Risk Management & Contingency Planning: Done in a Day Strategies

Peggy M. Jackson



Could your nonprofit stand up to risk assessment from outside authorities? Would it be ready should a key staff member leave?

Risk management and business continuity planning have the potential for growing and strengthening the internal structure of your nonprofit, yet, these crucial practices are often deferred--or avoided--because many nonprofits fear the planning process will take forever, step on toes, or gather dust on a shelf once it is completed.

With valuable templates, checklists, and worksheets to facilitate planning and preparation, *Nonprofit Risk Management & Contingency Planning: Done in a Day Strategies* is the new, uncomplicated way for your nonprofit to get risk management planning done.

With some basic preparation--and dedication of a single day--this easy-to-read and easy-to-use tool introduces you to the nuts and bolts of strategic planning and equips you with the structure to engage successfully in a contingency planning process.

EDUCATION OPPORTUNITIES

Visit www.mowaa.org/calendar for the most up-to-date listing of events.

Institute for Board Members and Executive Directors of Nonprofit Organizations

Details: This Institute is targeted to business and community leaders who serve as active board members of Senior Nutrition Programs, together with the leaders (CEOs, Executive Directors, etc.) of those organizations. While individual participants are welcome, this workshop is most effective for those who attend as a "team" of two or more from an organization. Visit **www.mowaa.org/bod**

When: March 11, 2011 **Where:** 210 S. Union Street; Alexandria, VA 22314
Registration Fee: $199 for MOWAA Members / $249 for non-Members
The registration fee includes full participation in the program, all course materials and applicable meals.

Webinars

Details: Visit **www.mowaa.org/webinars** to see current opportunities.

Upcoming Leadership Webinars:
February 10, Topic: Identity Theft: It Happened to Us, It Can Happen to YOU!
