

# Vision: Leadership Focus



January 2008

## Fast Focus Tips

- Exceptional boards have integrity in their accountability.
- They want to avoid any appearance of problems.
- They are willing to be an example to other boards.

Find the book,

[\\*www.boardsource.org](http://www.boardsource.org)

## Compliance with Integrity More than meeting the requirements

“Compliance with integrity” requires extra board effort and serious attention. Are you up to the task? Exceptional boards meet this standard by addressing not only what law requires but by going further to ensure the organization’s operations are conducted in a truly ethical, open, and responsive manner. It is the seventh principle in the book, *The Source: Twelve Principles of Governance That Power Exceptional Boards*, written and published by BoardSource, 2005.\*



“We are good people doing good things” is certainly true, but it isn’t enough these days. It’s not an answer that will carry weight or answer critics concerned about strong legal and ethical compliance. Our environment demands full answers, open processes, and doing the right thing. Donors are more demanding in the face of unflattering headlines about prominent charities and their leaders. “We didn’t have to do that before” is a weak excuse when hard questions are asked or new standards are enforced. Legislators and government regulators expect to see high nonprofits standards. We hear legislators ask, “Are we getting our nonprofit tax deferral value from organizations?”

Compliance with laws, standards, and expectations must be addressed regardless of an organization’s size or the tenure of the top staff leader. No board gets a pass because the organization is small or has few staff. Small communities might have too many family members involved with governance or recordkeeping. Small organizations need to work harder to involve different people for different tasks to meet the standards of accountability.

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**12 Principles of Governance That Power Exceptional Boards**

1. Constructive Partnership
2. Mission Driven
3. Strategic Thinking
4. Culture of Inquiry
5. Independent-Mindedness
6. Ethos of Transparency
- 7. Compliance with Integrity**
8. Sustaining Resource
9. Results Oriented
10. Intentional Board Practices
11. Continuous Learning
12. Revitalization

*Vision features one 'power' principle in each issue.*

# Six Key Areas to Bring Integrity to Compliance



Boards must take clear steps to assure their community that the nonprofit's operations and undertakings are conducted in a truly ethical, open, and responsive manner. This is the foundation of strong board governance. See if your organization has or does the following:

**One:** Adopt a **statement of ethical values** that is “given life” by the board’s adherence to the principles. The board’s actions ensure that principles are known and referenced regularly.

**Two:** The board is serious about their obligation to be **aware of risk and ensure it is managed**. Management reports or direct observation of activities and practices help a board pay attention. A whistle blower process ensures a higher level of control.

**Three:** **Internal controls and annual audits** charge a board to pay attention to who handles what in the financial process. An audit committee might include outside representatives in order to bring fresh perspective.

**Four:** **Insurance** is a vital part of any business operation, and we now have full appreciation for **emergency plans**. Adequate insurance coverage is necessary, both in types of coverage and amounts. Most organizations now need a plan for how they would respond to and/or operate in emergency conditions.

**Five:** Particular care is given to the selection and review of the key staff. **Performance evaluations** are a part of accountability as well as good personnel management. The board must be paying attention to the performance of the key staff as the primary asset of the nonprofit.

**Six:** A clear **conflict of interest policy** is a must. But most nonprofits need additional guidelines for the *appearance* of conflict. Integrity is the rule and disclosure is the key for these special circumstances when board members may have mixed loyalties.

<b>Responsible Boards x</b>	<b>The Source of Power =</b>	<b>Exceptional Boards</b>
Ensure compliance with the law Approve budget and review financial reports Obtain independent review or audit of financial statements Ensure appropriate insurance Revise bylaws, as necessary	Financially attentive and astute board members Vigorous oversight Proactive risk management Auditors and compensation consultants report to board	Judiciously allocate and oversee resources Deeply understand their organizations Minimize risk Display highest standards of ethical conduct

## Direct Questions and Observations are Strong Board Tools

The more accountability and compliance is discussed and boards are charged with fiduciary duties, the more they want to view details and seek assurances that the nonprofit is operating well. It raises the question, “How much information, how often, is enough?”

United Way boards can be very close to the operations and undertakings because we have a rich committee structure and our governing volunteers are also usually program volunteers. When the work of a committee seems to be counter to the discussions at a board meeting, challenges and questions are in order.

Direct observation of processes by individual board members is sufficient for monitoring in many cases, such as observing the way checks are received and deposited and the way the bank statements are reviewed. Asking direct questions of the staff can also go a long way toward compliance. “Is there any way that you or anyone else could steal from this organization?” calls for a clear and direct response. It is not about the intent or willingness of the staff person to steal but about the gaps and procedures that need to be in place to assure outsiders that it can’t happen. If asked, any board member needs to be able to tell a major donor that processes

have been reviewed and assure them of the integrity of operations.

Board members might schedule a full meeting to review compliance issues every few years. A complete insurance summary, management letter from the most recent audit, personnel policies, volunteer recruitment practices, and payment procedures and practices can give the board a good understanding of how things are done.

The direct question for any policy: “Do you know of any violations of this policy or procedure?” The answer provides a basis for knowledge, trust, and confidence.

## Appreciative Corner: Beyond Numbers

Many of the questions and standards for compliance are not answered with numbers. Sometimes we need fewer spreadsheets in favor of more clarity around what is important and how we report it. Try these questions for the board before you begin a review of policies and procedures.

- ◆ Think of any organization/company you hold in high esteem. Their reputation appears to be impeccable; they are above reproach. What gives them that status in your eyes? Did someone give them a “blue ribbon”

that carries such integrity recognition? Share this experience with another board member. Then, draw out at least two different examples from among your board.

- ◆ As you consider these examples, what are the common factors that make you feel so confident of their organizational standards? List three or four key factors that are present in these two organizations that you could use for an informal standard.
- ◆ What are the values your friends and family hold most dear for all nonprofits? If you

could identify one standard that is most important in the community, what is it?

- ◆ Building from your conversation, what are strong elements of integrity and compliance you could add to a checklist? What elements might you add, personally, an ideal standard? How might you use this list to create the integrity value in your organization? What one thing must this organization do to begin to raise its compliance standards and expectations?



Indiana Association of United Ways...Bringing Indiana United Ways together to help them create a successful future.

**Serving Members:**

**Relationship/Association** - facilitate and foster the collective activity of members for growth, development, and increased performance.

**Learning/Training** - distribute knowledge, experience, and technology to leaders (staff and volunteer).

**Research & Development/Innovation** - test and develop new concepts and technology for application to local UW operations.

**Representation** - participate in external collaborations and state level activity on behalf of members and carry the needs of members to external funding sources.

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## Give it a Try: A Checklist for Accountability and Compliance

Use this list to confirm that appropriate documents and policies are in place.

- Do you have a statement of values that reflects things that are important to the board?
- Does the board know what insurance coverage the United Way has and for how much?
- Does the United Way have personnel policies that define vacation, sick days, office hours, holidays, expenses paid, etc.?
- Do you have a guide for document destruction/retention?
- Did the board address any deficiencies noted in its last audit related management letter?
- Do volunteers periodically review detailed financial reports from your accounting system?
- Does anyone review cancelled checks and bank statements for errors or discrepancies?
- How does the board know that tax withholding deposits are made to the government? How do you affirm that all required state and federal reports are filed on time?
- Is there an emergency procedure to get checks signed for an extraordinary short term need? Can the organization approve a payment in an emergency or disaster circumstance?
- Does your board completely comply with all membership requirements?
- Does your board report compliance with conflict of interest in its meeting minutes?
- Are bylaws current with organizational practices and procedures? Does the board comply with officer and committee sections of the bylaws? Is the mission and purpose stated in the Articles of Incorporation congruent with the bylaws and the current mission statement?
- How does the board handle complaints or challenges to organizational integrity?

