

# RISK AWARENESS

Every nonprofit board of directors and staff have a responsibility to protect the organization. Risk management includes awareness of potential risks, avoidance or mitigation of the risks, and continuous monitoring. This guide is divided into six areas to improve awareness in associations, chambers and nonprofits. *Be certain to rely on legal, accounting and insurance counsel for advice.*

## Finances and Assets

A common risk is loss of funds or assets. The IRS requires losses be reported as “diversions.” There are many safeguards for protecting assets.

- ✓ Diversions, theft of assets.
- ✓ Audit process and frequency.
- ✓ Safeguards in place.
- ✓ Credit card usage – PCI.
- ✓ Budget adoption process.
- ✓ Financial reports regularly.
- ✓ Form 990 filing with IRS.
- ✓ Transparent processes.
- ✓ Savings and investments.
- ✓ Subsidiary organizations.
- ✓ Reimbursement processes.
- ✓ RFPs and bid processes.
- ✓ Operating ratios.
- ✓ Public dollars (income).
- ✓ Sponsorship or advertisement, unrelated business income tax (UBIT).

**UBIT** – Federal income tax on activities outside of the mission, commonly applied to advertising, rent and royalties.

## Management and Administration

A nonprofit is required to submit state and national filings. Having employees requires compliance with labor laws.

- ✓ Personnel manual.
- ✓ Whistleblower policy.
- ✓ Software licenses.
- ✓ Business license if applicable.
- ✓ Charitable solicitation

**Charitable Solicitation** – More than 40 states have a requirement for organizations soliciting funds from persons they do not have an existing relationship to be registered.

- registration.
- ✓ Apparent authority, speaking.
- ✓ Fraternalization, harassment.
- ✓ Alcohol served at events.
- ✓ Agreements, contracts, MOUs and leases.
- ✓ Annual business meeting.
- ✓ Record retention, document destruction.
- ✓ Cyber security, hacking.
- ✓ Sales tax collection, reporting.
- ✓ Filing articles of incorporation.

- ✓ Compensation levels.
- ✓ Performance reviews.
- ✓ Lobbyist registration, ethics requirements.
- ✓ PAC filings.

## Boards and Committees

Good governance includes certain disclosures, protocols and confidentiality.

- ✓ Authority to speak for the organization.
- ✓ Antitrust avoidance, measures.

**Antitrust** - Relating to legislation preventing or controlling trusts or other monopolies, with the intention of promoting competition in business. Fines can run to \$10 million.

- ✓ Stationery and business cards.
- ✓ Sign-in sheets.
- ✓ Meeting minutes.
- ✓ Disclosure of conflicts.
- ✓ Public records and requests.
- ✓ Electronic, virtual meeting notices and votes.

- ✓ Amendments to governing documents.
- ✓ Guests attending meetings, protocols.
- ✓ Confidentiality of documents and discussions.
- ✓ Meeting recordings.
- ✓ Ex-officio directors.

**Ex-Officio** – A person who serves by virtue of holding a position on another organization, stature or experience. Bylaws will indicate whether or not they have a vote.

- ✓ Quorums.
- ✓ Behaviors and conduct.
- ✓ Annual review of IRS Form 990.
- ✓ Protections for board and committees:
  - Volunteer Immunity
  - Directors and Officer Insurance (D & O)
  - Indemnification
  - Corporate Veil

## Membership

The IRS sets expectations for notice to members.

- ✓ Voting on, approval of members.
- ✓ Notice of % direct lobbying.
- ✓ Charitable donation notice.
- ✓ Endorsement, preferred vendors.

- ✓ Associate, supplier members.
- ✓ Defamation, libel.

**Approving Members** – Though some bylaws call for the board to approve new members, the action should simply be an acceptance of the membership report without commenting on each member with an acceptance or rejection. .

## Communications

With more newsletters posted on the internet it is important to be cognizant of potential risks.

- ✓ Social media and listservs.
- ✓ Copyright violations.
- ✓ Licensed, copyrighted materials.
- ✓ Photo release.

## Protections

There are methods to protect against risks. When good policies and procedures are applied the exposures may be reduced. Risk management begins with awareness and avoidance.

The federal **Volunteer Protection Act** of 1997 (the VPA or the Act) aims to promote volunteerism by limiting, and in many cases completely eliminating, a **volunteer's** risk of tort liability when acting for nonprofit organizations or government entities.

- ✓ Volunteer immunity.
- ✓ Access to legal and accounting counsel.

- ✓ Policies adopted by the board.
- ✓ Meeting sign-in rosters.
- ✓ Comprehensive board orientation, access to documents.
  - Mission Statement
  - Articles of Incorporation
  - Bylaws
  - Policies
  - Strategic Plan
  - Annual Budget and Financial Statements
- ✓ Insurance Coverages
  - General Liability
  - D & O Liability
  - Meeting Cancellation
  - Host Liquor Liability
  - Surety or Fiduciary Bond
  - Cyber Crime
  - Publishers Insurance

The laminated **Guide to Board Responsibilities**© is available \$12 ea. or \$10 ea. for 6 or more + s/h

Email quantity, organization and street address to [bob@rchcae.com](mailto:bob@rchcae.com) or fax 850/297-2800

Also available, laminated:

- ✓ **Committee Responsibilities**
- ✓ **Guide to Strategic Planning**
- ✓ **Better Governance**

Seminars, Board Orientation, Strategic Planning by Bob Harris, CAE.

[www.nonprofitcenter.com](http://www.nonprofitcenter.com)



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