"*Orange is NOT the New Black* - Managing Risk – Is It Worth It?"

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For the
Tennessee Charitable Care Network
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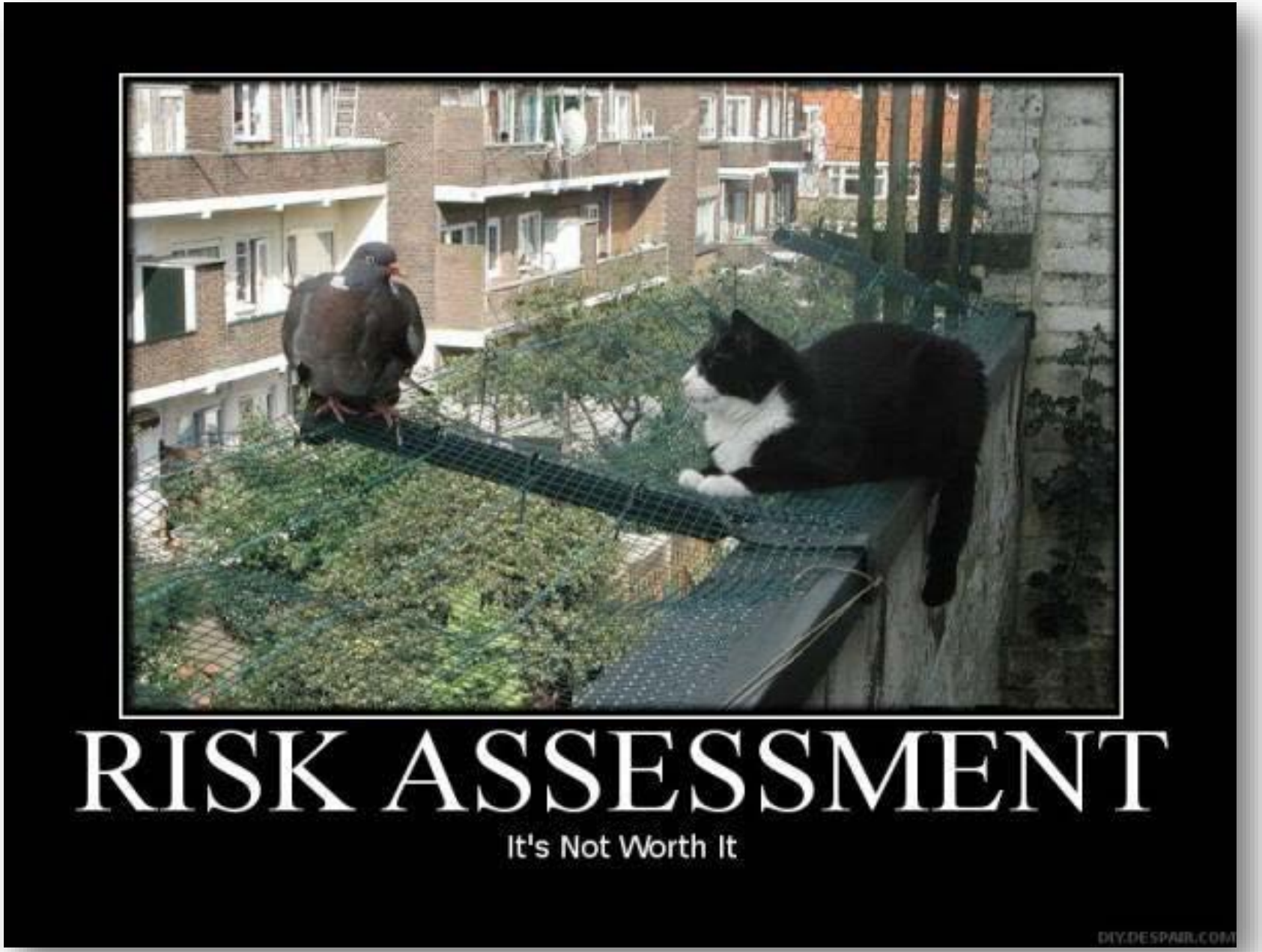
Statement of Need

- Too many nonprofits and even for-profits do not properly assess and plan for their organizational risks in advance of a "crisis," and are therefore susceptible to financial or regulatory penalties and/or tremendous loss of public trust. This workshop will examine areas of risk often neglected by nonprofits and how to be proactive in minimizing risk.

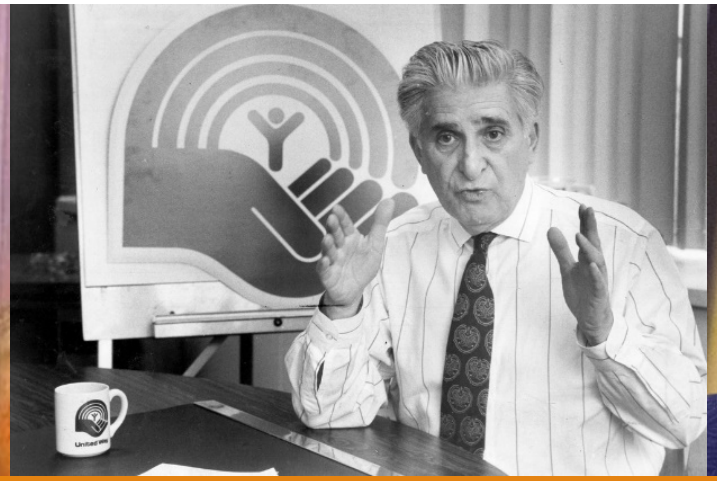

RISK ASSESSMENT
It's Not Worth It
DIY.DESPAIR.COM

Workshop Objectives

- Explain why and how minimizing risk of all types is in the best interest of everyone – patients, board, staff, volunteers, donors, etc.
- Outline potential strategies to reduce and/or manage risk (ex. OSHA implementation).
- Assess and define current risk (areas of "weakness" or "opportunities") & severity; Identify a risk that may not be obvious (ex. HR)
- Discussing with potential stakeholders (i.e. gaining support from the board, staff & volunteers)

What is *It*? Acknowledge *It* - *Risk*

- The possibility that something bad or unpleasant (such as an injury or a loss or harm) will happen;
- Someone or something that may cause something bad or unpleasant to happen; or
- A person or thing that someone judges to be a good or bad choice for insurance, a loan, etc.



Why Focus on Managing Risk?

- 3.7M Search Results on Google! That's Why!
- Protect Resources & Assets – Human, $$, Time, Talent
- Reputation; Integrity (Donors, Volunteers)
- Confidence of Stakeholders
- Maintain Mission Focus
- Creates Greater Efficiencies
- Stronger business; Better Competitor
- Human Factor
- Other?

Pay Now, or Pay Later

It Happens

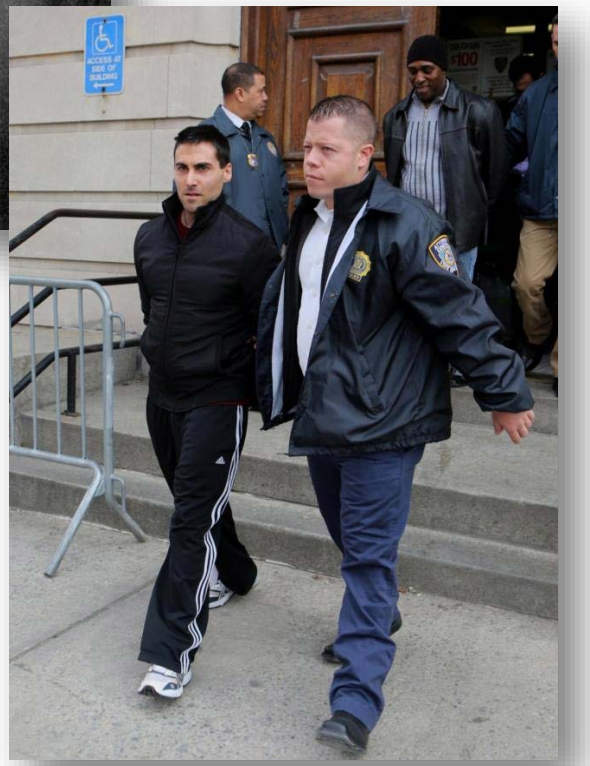
- United Way 1992; $1.2M
- American Legacy Foundation 2012; $3.4M
- Youth Service America 2009; $2M
- Alliance for Excellent Education 2007, $7M loss from Bernie Madoff Ponzi scheme
- 46% of fraud involves multiple perps

(ACFE 2014 report)

(Jason Brand, $30M Scheme, NY)

- AARP 2011; $230,000
- **1,000** nonprofits indicated fraud, embezzlement or other unauthorized use of funds on their IRS 990 forms, 2008-2012 according a Washington Post analysis in 2013
- Est. 5-7% gross revenue is lost to employee fraud

(Assoc. of Certified Fraud Examiners & Keiter CPAs)



Areas of Risk in Every NPO / Clinic

- Patients
- Staff
- Donors
- Volunteers
- Board
- Building; Property
- Financial Management/Loss
- HR: Paid, unpaid staff & contractors
- Losing Tax Exempt Status
- Conflicts of Interest
- Fundraising Events – *CASH!*
- Transportation!
- Compliance (OSHA); Grants
- Reputation / Credibility

Source: The Nonprofit Times, February 23, 2012

Discussion Case: Payroll Error

Facts

- Non-exempt employee
- Job description requires to work 9am-4pm (35 hours)
- Paycheck for last 10 years = 40 hours/week
- Employee knew of mistake

What to do?

- Who?
- What?
- How?
- When?
- Policy change?
- Why?

Addressing Risk (Strategies)

- Audits?
- Talk about it – Board, Stakeholders & Staff & Volunteers
- Assess!
- Policies & Procedures in writing
- Job Descriptions in writing & evaluated
- Staff & Volunteer Evaluations
- Investigate complaints immediately; Accountability is key
- Separation of Duties; Reconciliation
- Whistleblower
- Insurance
- OSHA – you are not exempt
- External Prep & Review; Audits (RFP)
- IRS Form 990
- Board Composition – CPAs, Lawyers, HR Professional
- Create a culture & atmosphere of accountability.
- Engage & Educate & Train

DON'T ASSUME! Good People Do Bad Things

Discussion

- Concerns?
- Who is most vocal “opponent?”
- Who is my champion?
- Will it cost my clinic financially?
- What resources exist to help my clinic?
- Know of potential risk(s) at your clinic?
- Questions?
- Follow up? MAKE A PLAN

Notes for future

- External audits find less than 4 of 100 frauds. Audits determine that your statements are materially correct & prepared using GAAP; they also check for controls
- More than 2 of 3 fraud victims lacked internal controls, had an override of internal controls or lacked mgmt. review

Notes Cont'd

- 40% of fraud discovered because of a tip (Council of Nonprofits)
- Most likely fraud in NPOs: fake vendor invoices, check tampering, expense reimbursement
- And theft of incoming $
- $80k is median loss perpetuated by one person

By Joan M. Renner, CPA, CGMA, Director 501c(fit), Alexandria VA

Resources & Articles

- Nonprofit Fraud: It's a People Problem, So Combat it With Governance

https://nonprofitquarterly.org/2015/06/24/nonprofit-fraud-its-a-people-problem-so-Mcombat-it-with-governance/

- Myth: Audits Uncover Fraud

https://www.councilofnonprofits.org/nonprofit-audit-guide/myth-audits-uncover-fraud

- Inside the Hidden World of Thefts, Scams…

http://www.washingtonpost.com/investigations/inside-the-hidden-world-of-thefts-scams-and-phantom-purchases-at-the-nations-nonprofits/2013/10/26/825a82ca-0c26-11e3-9941-6711ed662e71_story.html

Resources & Articles

- Myth: Audits Uncover Fraud

https://www.councilofnonprofits.org/nonprofit-audit-guide/myth-audits-uncover-fraud

- Why All Nonprofits Should Periodically Assess Their Risk

http://nonprofitquarterly.org/2012/05/08/risky-business-why-all-nonprofits-should-periodically-assess-their-risk/

- NAFC Members' Only Website: Legal & Operational Guide for Free Medical Clinics
- Nonprofit Fraud: 18,200,000 Google hits *(5/1/17)*
- Nonprofit Embezzlement: 289,000 hits *(5/1/17)*

Thank you!

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