



presents

# Risk Assessments for Non-Profit Organizations

## Identifying and Mitigating Unique Risks to Improve Internal Controls and Transparency

### A Live 110-Minute Teleconference/Webinar with Interactive Q&A

#### Today's panel features:

Melanie Lockwood Herman, Executive Director, **Nonprofit Risk Management Center**, Leesburg, Va.

Melanie Gray, Director of Quality Assurance, Human Resources and Risk Management,

**Doorways for Women and Families**, Arlington, Va.

Bob Broda, Founder and Managing Partner, **Visage Solutions, LLC**, Raleigh, N.C.

Kathy Miller, Vice President and Lead Counselor, Non-Profit Practice, **Oswald Companies**, Cleveland, Ohio

**Wednesday, February 10, 2010**

The conference begins at:

**1 pm Eastern**

**12 pm Central**

**11 am Mountain**

**10 am Pacific**

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# **Risk Assessments For Nonprofit Organizations Webinar**

**Feb. 10, 2010**

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# Today's Program

- Background Concepts, slides 3 and 4 (*Melanie Lockwood Herman*)
- Aspects Of The Risk Assessment, slides 5 through 16 (*Melanie Lockwood Herman*)
- Risk Assessment Experiences At One Nonprofit, slides 17 through 30 (*Melanie Gray*)
- Using Insurance To Complement A Risk-Assessment Process, slides 31 through 45 (*Kathy Miller*)
- Internal Controls At Nonprofits: Best Practices Vs. Required Practices, slides 46 through 65 (*Bob Broda*)

# Background Concepts

# Risk Assessment Background

- Is the demand for risk assessments growing?
- Possible reasons why:
  - Stakeholder demands/expectations for greater effectiveness and efficiency
  - “Cache” of the risk assessment discipline and terminology (“15 minutes of fame”)
  - Post-incident panic/focus

# Aspects Of The Risk Assessment

# Reasons To Conduct A Risk Assessment

- Formal
  - Board requirement
  - Funder requirement
- Informal
  - Sleep more peacefully (leader confidence)
  - Position nonprofit for long-term success
  - Protect mission

# Types Of Risk Assessments

- Terminology is widely used and may be used to describe a wide range of activities, such as:
  - A facility inspection
  - An audit of internal control weaknesses
  - The implementation of new risk management policies

# Types Of Risk Assessments (Cont.)

- To some degree, what constitutes a risk assessment will depend on who conducts it
- Common providers of risk assessment services include:
  - Insurance agents and brokers
  - Audit firms
  - Independent consulting firms
  - Independent risk management consulting firms

# What Is A Risk Assessment?

- A risk assessment is the process of examining the exposures an organization faces in order to identify recommended steps for strengthening the organization's future loss control and risk management strategies and activities
  - E.g. Nonprofit Risk Management Center

# Self-Assessment

- Many organizations rely solely on insiders (staff and volunteers) to undertake a risk assessment of their exposures
- The upside of this approach is that it requires personnel in the nonprofit to learn about a wide range of risks and consider responsive strategies
- Conducting a self-assessment is an excellent first step in broadening awareness about risk and risk management in your organization
- The two potential downsides are that:
  - (1) Most nonprofits do not have the luxury of assigning the task of a risk assessment to busy personnel who wear multiple hats, and
  - (2) An assessment conducted by insiders may not be as effective in spotting the wide range of issues facing the organization

# Broker Or Carrier-Conducted Risk Assessment

- Many nonprofits turn to their insurance providers – agents, brokers and carriers – for assistance conducting a risk assessment (or if not a true risk assessment, a site visit/inspection with follow-up “to do” items noted)
- Through these existing relationships, a nonprofit may receive helpful guidance on key insurable exposures. The broker or carrier representative may be able to offer specific advice that will help the nonprofit keep premiums at a minimum and coverage options open. Many brokers and carriers offer risk assessment services for free, as part of the continuum of support available to insureds. In other instances a broker may charge a fee to conduct a risk assessment

# Broker Or Carrier-Conducted Risk Assessment (Cont.)

- It is important to keep in mind that brokers and carriers that offer risk assessments are likely to approach these assignments from a loss prevention perspective (focusing on insurable risks), rather than a broader, enterprise risk management perspective
- *Note:* In the Nonprofit Risk Management Center's view, it does not make sense for a nonprofit to receive risk assessment services from a competitor to its current insurance provider. If you are unhappy with the services provided by your broker but want to receive a free risk assessment conducted by a broker, you should first select a new firm and then work with that new broker on the risk assessment

# Independent Risk Assessment

- An independent risk assessment differs from the other approaches in three important respects:
  - First, the assessment is conducted by a consultant who does not sell insurance or represent insurance carriers
  - Second, because it is separate from any insurance arrangement, an independent assessment is generally broader in scope, focusing on uninsurable as well as insurable risks
  - Third, and perhaps most importantly, an independent risk assessment provides the client organization with a link to a risk management expert to whom they can turn with difficult risk management questions and dilemmas

# Independent Risk Assessment (Cont.)

- Some nonprofit leaders may be more likely to share the reality of the organization's operations (e.g. examples of policies that aren't being followed) with a consultant who is *independent* of the insurance transaction
- Independent risk assessments are provided on a fee-basis. The cost of the assessment should be confirmed before work begins, and will range from a low of \$2,500 to a high of \$25,000 depending on the scope of the assessment and the client's needs. An independent risk assessment may include an insurance coverage review – the careful analysis of the adequacy of a nonprofit's insurance program in light of the exposures identified in the risk assessment. Some brokers and carriers may be willing to contribute to covering the cost of an independent assessment

# Risk Assessment Reminders

- Be honest about the reasons for conducting a risk assessment
- Remember that a risk assessment is not a substitute for an ongoing risk management program and the commitment to integrating RM into planning and operations
- Prepare for surprising results
- Adopt a realistic strategy for follow-up

# Risk Assessment Reminders (Cont.)

- Remember the “wisdom of crowds” when looking for insight on the nonprofit’s risk. There is no single leader who can tell the entire story
- Use the risk assessment as an opportunity to solicit ideas to strengthen risk management policies and programs

# **Risk Assessment Experiences At One Nonprofit**

# Once The Risk Assessment Is Complete

- You have your organization's risk on paper
- Whom do you share the risk assessment with first?
- You will likely feel “exposed”; it is normal to feel this way!
- How do you move forward?

# Successfully Move From Assessment To Action

1. Get the right people involved
2. Determine if you have a complete and sufficient identification of risks
3. Determine if you focused on the “right” risks
4. Use what you’ve learned in your risk assessment
5. Be prepared to manage risk over the long term

# Getting Started

- Find a risk management “**champion**” in your organization. This is the individual who introduces and the supports RMA, and can assist in securing funding, resources and availability of key personnel
- Champion must carve weekly time on the calendar to address risk
- Get the right people together to have a **regular** dialogue
- Many people don’t know about RM or speak the language. Establish a common risk language through a discussion or training. Provide an example list of common terms

# Getting The Right People Involved

- Accountability: There should be one accountable individual for coordinating and overseeing RM. This may be the same or different than the “champion” described before, depending on that individual’s position. Alternately, consider establishing a risk committee
- Delineate responsibilities: Divide the practical aspects of RM throughout the organization by making each top administrator responsible within his or her specific area
- Leverage responsibility throughout the organization: Work to leverage the ideas of and responsibility for RM farther down in the organization; board members are generally not the first people to identify a day-to-day risk
- Board involvement: The board should be involved in RM on a regular basis. One approach is to make one specific board committee responsible for the whole process (e.g. performance committee)

# Complete And Sufficient Identification Of Risks

- Develop a systematic process for identifying risk that may not have been covered in the assessment, such as using an organizational chart and determining all key risks under each top administrator
- Develop a process for identifying risks on an ongoing basis, rather than just once. One example could be a risk committee that discusses this on an regular basis
- Reach out to peer institutions to discuss how they manage risks

# Review The Accuracy Of Your Risk Assessment

- Engage full organization: Board, executive management, risk officer, people reviewing risk at whatever level, etc.
- Establish a feedback loop for your findings to make sure you are drawing the right conclusions from your risk assessment
- For example, persons interviewed may not share risks in their own areas, but may in other areas of the institution; you must then address these stated risks with the individual responsible for that area
- For example, you may need to assess your findings in a relative manner, as some persons interviewed may list many items as high risk, and some may list all items as low risk

# Focusing On The “Right” Risks

- Implement a risk-ranking methodology to prioritize risks within and across functions
- When prioritizing risks, consider likelihood of occurrence and the potential impact of the risk on the institution. Risks that fall into the high likelihood/high impact category should receive the most immediate attention
- Perform a thorough analysis of the organization’s risk tolerance (i.e., risks it will and will not take) and assess your risks in terms of your specific risk tolerance
- Ensure your RM processes focus on opportunities and strengths in addition to negative risks

# Use What You've Learned In The Risk Assessment

- State a specific, formal mechanism for sharing the findings and updates of the risk assessment with the board, management, etc. on a regular basis
- Management could receive a laminated risk assessment summary sheet to keep in mind awareness when they are making daily decisions
- Designate a resource to answer any questions from decision makers, most likely the “champion”
- Include the person responsible for RM in the organization’s long range planning and budgeting processes

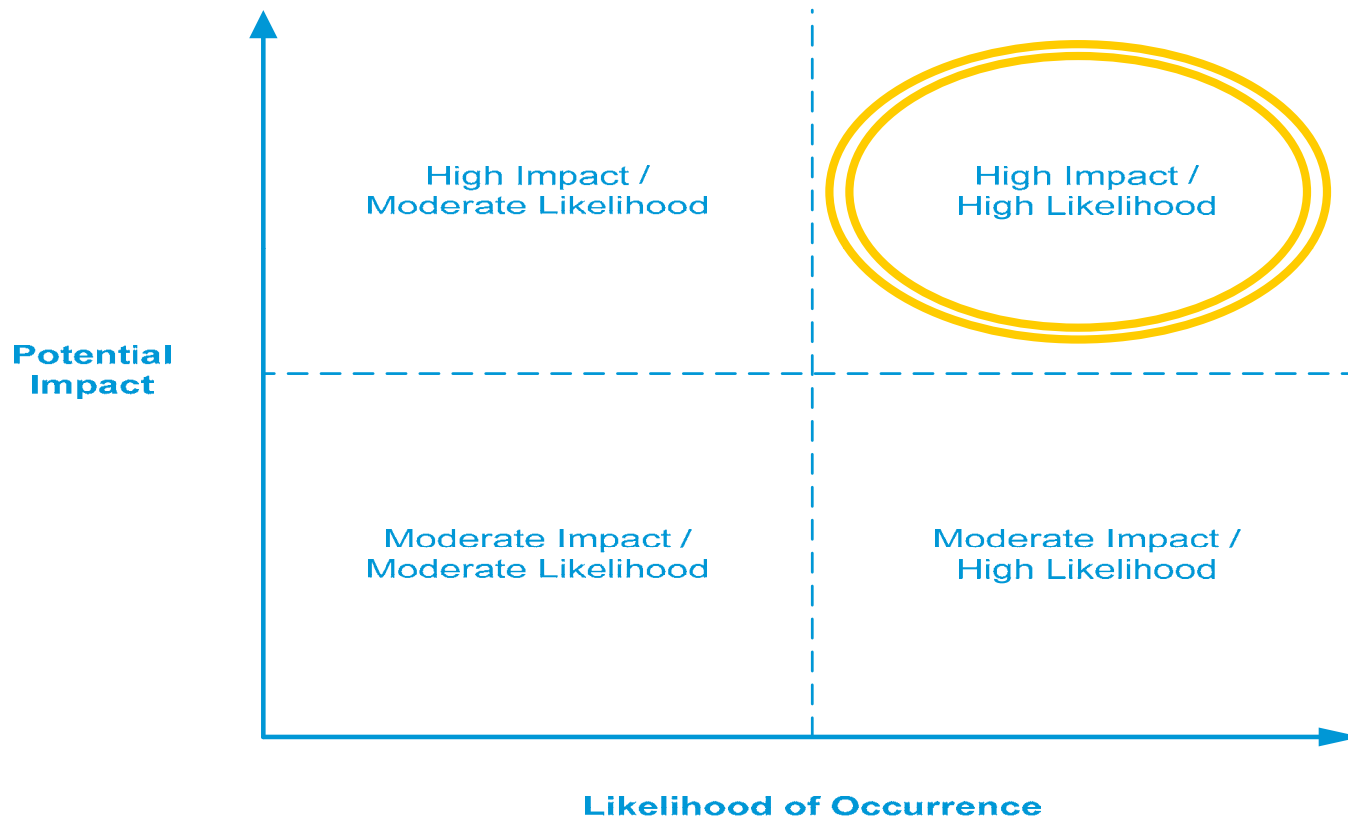
# Managing Risk Long-Term

- Put specific mechanisms in place to monitor key risk indicators, and communicate the findings of these mechanisms on a regular basis to decision makers. You may be able to utilize the systems you already have in place to provide a lot of this information with a minimum investment
- Develop action plans to ensure the risks are appropriately managed, and monitor the results of actions taken to mitigate risk
- Develop regular reports for various stakeholders. Communicate to these groups when they can expect reports to foster an environment of ongoing risk management

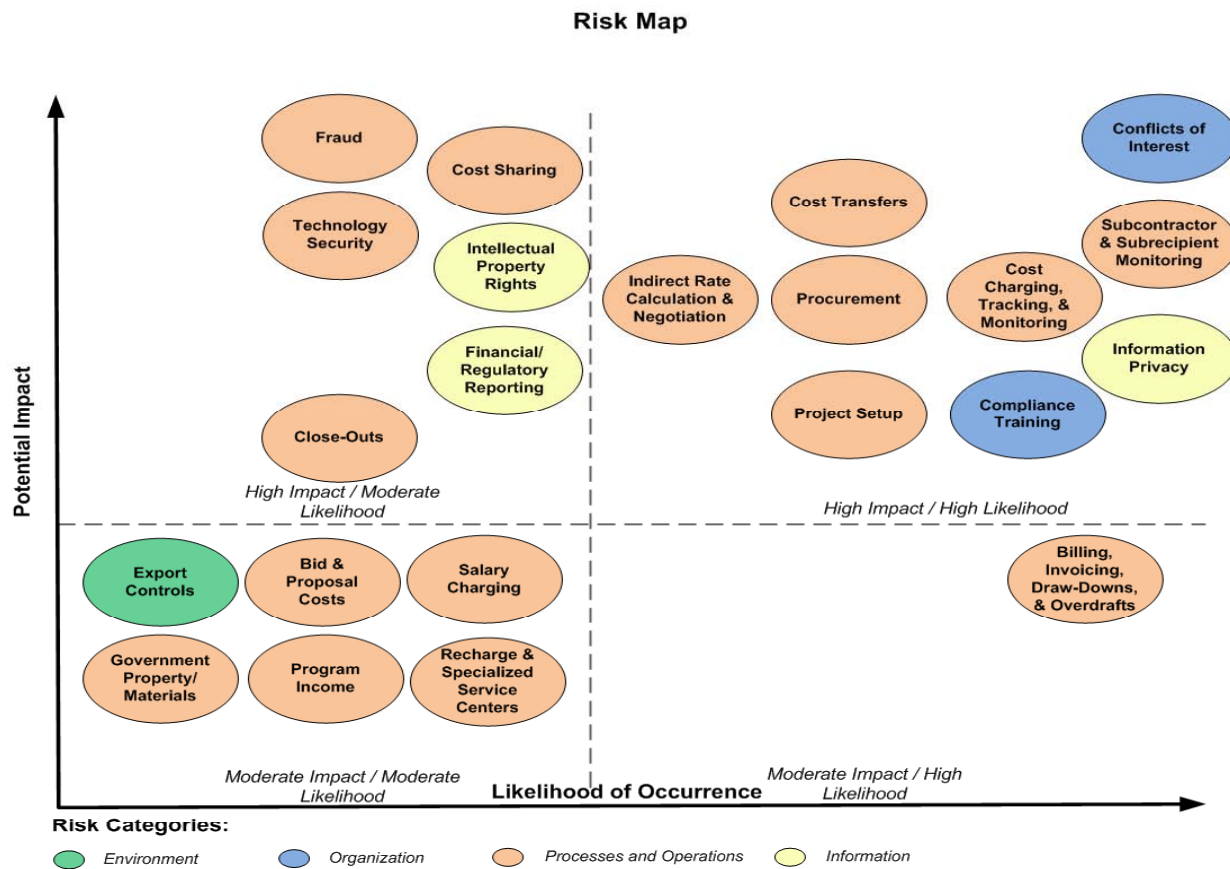
# Sample Risk-Discernment Process

- Area of risk
- Specific risk
- Recommendations
- Likelihood
- Impact
- Resources

# Likelihood Of Occurrence And Impact



# Create A Risk Discernment Map



# Final Words Of Advice

- Break it into small, manageable steps
- Make it everyone's business.
- Do not use this process to find flaws in an individual
- At the same time, pre-determine how you will handle personnel matters that may arise from this process
- Make it part of your culture

# **Using Insurance To Complement A Risk Assessment Process**

# Presentation Overview

- Engaging your insurance agent
- Risk identification, tolerance and treatment
- Specific risk considerations for property, general liability, auto, etc.
- Accessing resources through your insurance company

# Engage Your Insurance Agent In The Process

- Share your risk assessment objectives or audit findings
- Request an in depth review of your insurance program
- Understand how your insurance plan addresses some of your risk factors
- Prioritize your risk issues and request options
- Communicate changes in operations or programming on an ongoing basis

# Risk Identification, Tolerance And Treatment

- Insurance is not always the solution
- To insure or self-insure considerations
  - Risk factor severity
  - Size of organization
  - Internal controls
  - Cost
- Training and documentation

# Key Considerations

- 
- Don't assume that all policies are the same - there are many differences in coverage and coverage grants
- Don't let price be your only buying criteria

# Property

- Dependence on location to conduct mission
- Property off-premises
- Inter-dependence with outside organizations
- Construction or renovation

# Property Contract Considerations That Can Expose Your Organization

1. Valuation
2. Catastrophic risk factors, flood, earthquake and wind
3. Building ordinances
4. Water-related sub-limits and exclusions
5. Protective safeguard endorsements

# General Liability

- On premises/off premises activity
- Special events-alcohol, unique activities, bouncing or rebound devices
- Best practices
  1. Incident reports: Collect facts (who, what, where) and ensure that information flows through an established system to the appropriate parties, **for all liability issues**
  2. Review contracts: Leases, vendor contracts
  3. Certificates of insurance from outside vendors
  4. Additional insured
  5. Waivers/releases

# Sexual Abuse And Molestation

- Background checks
- Internal controls
- Education and training
  - Staff
  - Volunteers

# Professional Liability

- Type of professional exposure – how are you perceived in the community?
- Professional definition – are your exposures covered?
- Independent contractors – proof of coverage
- Internal protocols and training

# Automobile

- Every non-profit organization has this risk factor, even if you don't own autos
- Driver controls and criteria
- MVR checks
- Procedures to deal with questionable driving records
- Non-owned exposures: Volunteers, chartered vehicles
- Vehicle maintenance

# Crime

- Internal controls and separation of duties
- Adequate limits
- ERISA requirements
- Electronic exposures and computer fraud

# Cyberliability

- Web site dependence
- Protection of private information
  - Online giving
  - Network security breaches and state regulations
- Personal injury exposures
  - Blogs and interactive forums
  - Interactive forums
- Social media

# Management Liability

- Director and officer liability
- Employment practices liability
  1. Document, document, document
  2. Early reporting of claims – DON'T WAIT
  3. Be consistent with your practices
- Fiduciary liability
  1. Changes in 403(b) regulations can mean changes in fiduciary liability for nonprofits

# Insurer Resources – Included In premium

- Loss control personnel
- Online resources such as:
  - Facility self-inspection checklists
  - Driver training
  - Sample policies
  - Volunteer management
  - HR hotlines

# **Internal Controls At Non-Profits: Best Practices Vs. Required Practices**

# Opening Thought

The effectiveness of internal controls  
cannot rise above the integrity and ethical values  
of the people who create, administer and monitor them

# Focus Of Proposed Reforms

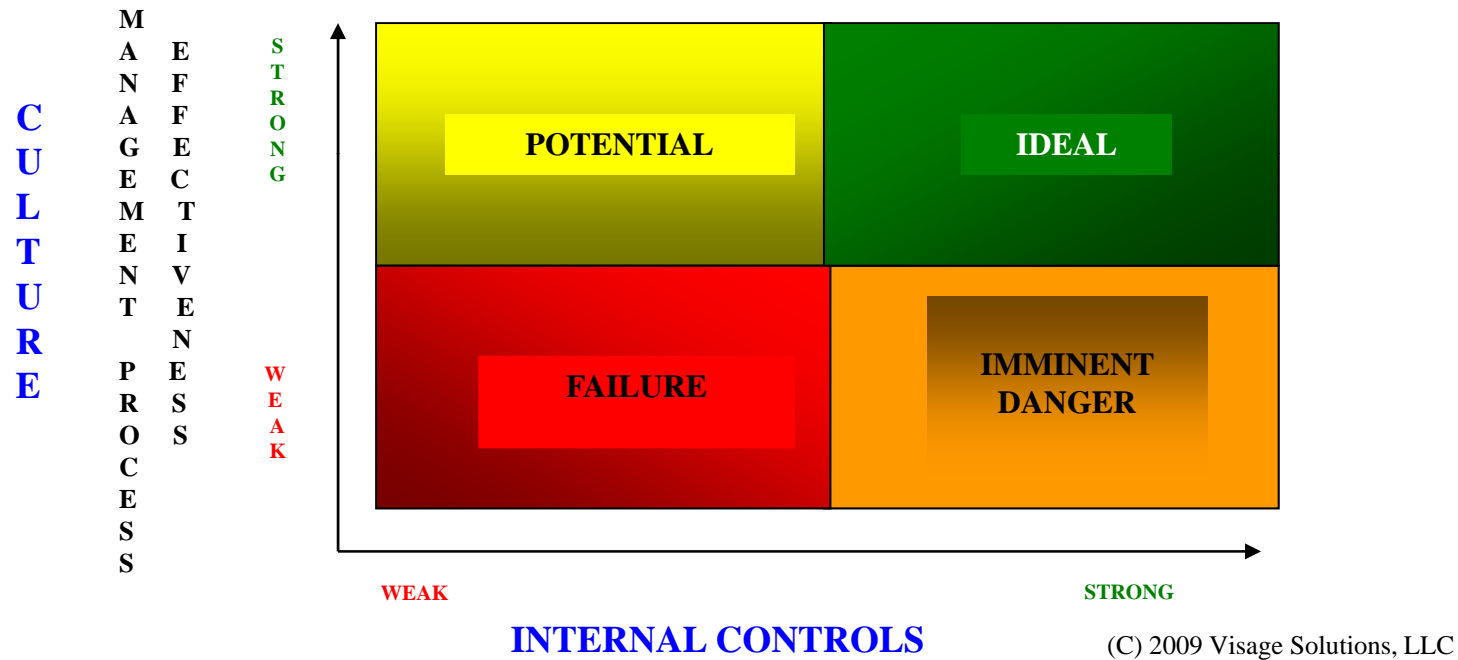
- Certification of financial statements
  - Sarbanes-Oxley-like requirements
  - Controls are currently voluntary, with minor exceptions
- Review of audit findings
  - Independent audit committee
- Increased audit thoroughness
  - Regular independent audits

# Intent Of Internal Controls

- Restoring investors' trust
  - “An Act - To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws ...”

Sarbanes-Oxley

# Governance Environment



# Internal Controls - Definition

- A process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives
- A means by which an organization's resources are directed, monitored and measured
- Plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks)

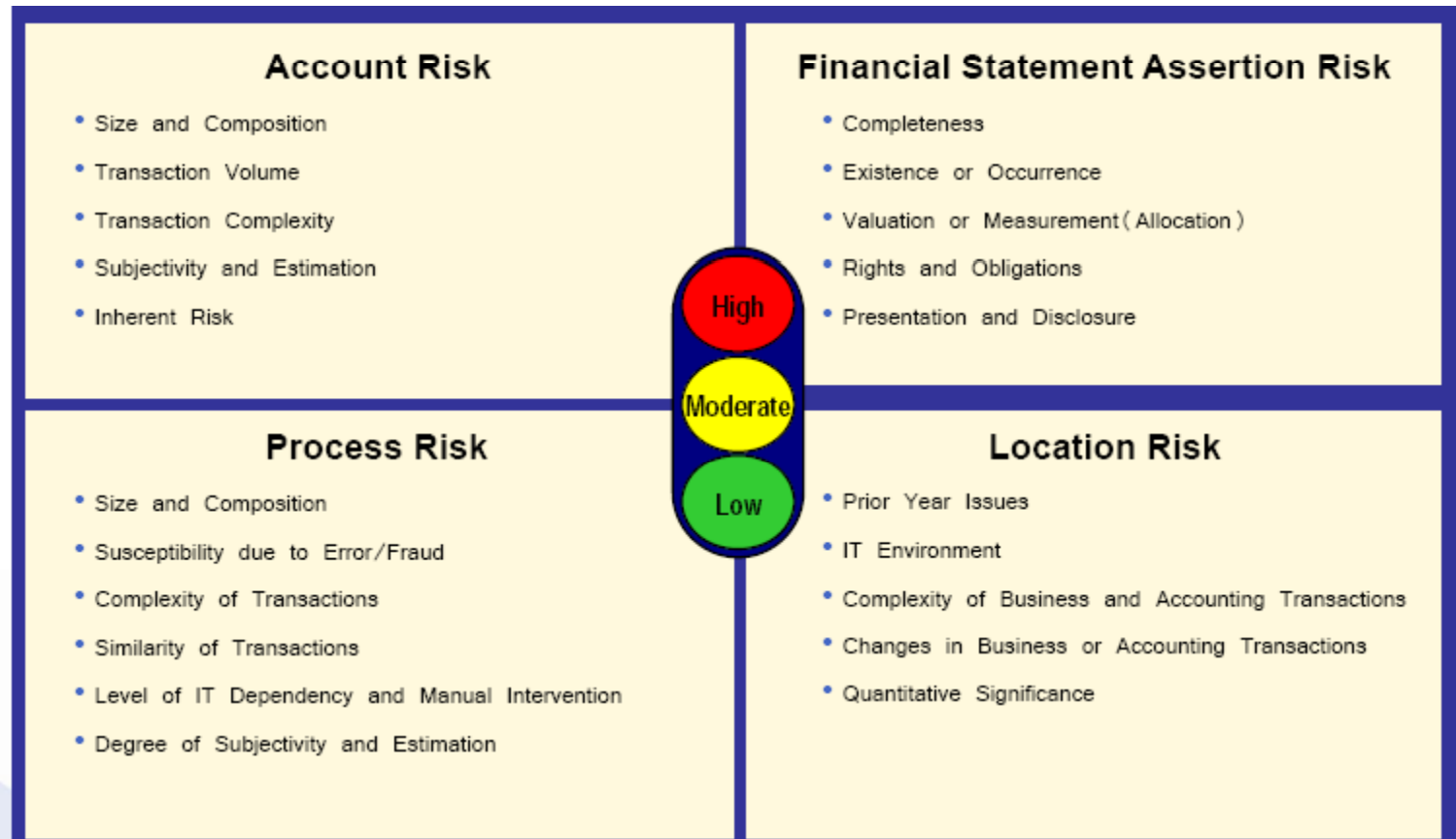
# Control Considerations For Nonprofits

- Exercise good governance practices
  - Provide better board oversight
  - Help clarify management and staff responsibilities
  - Increased expectations of donors, regulators and others
- Protect integrity and lawful functioning
  - Ensure integrity of 990s and other filings
  - Improve integrity of financials and organizational information to board
- Strengthen ability to fulfill its mission (*the basis of its tax exemption*)
  - More confidence in its reporting
  - Reduced validation/audit efforts (cost) of reporting activities
  - Beneficial effect on operations, such as insurance liabilities
  - More time to focus on mission of the organization
- Separation of duties

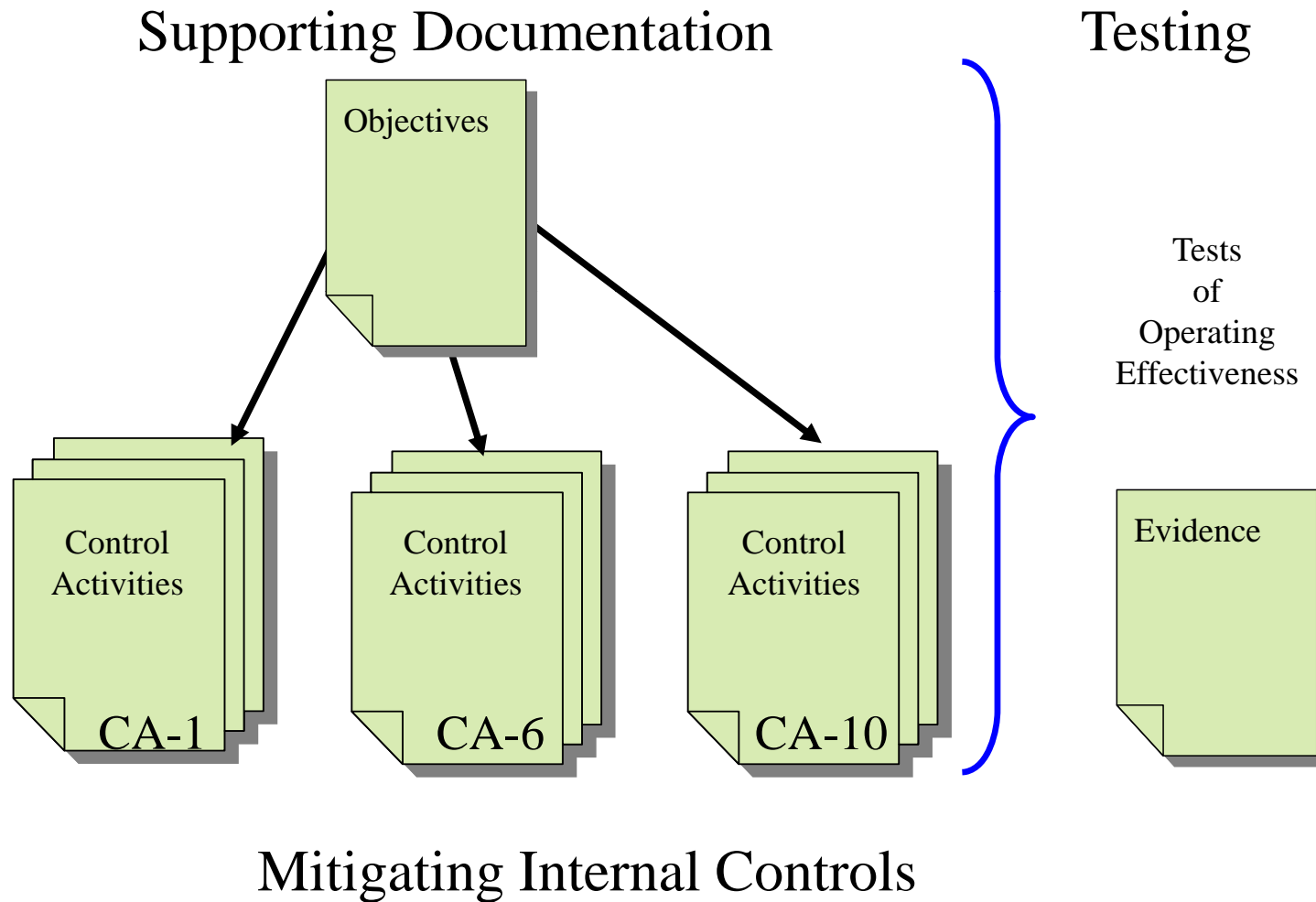
# Control Implementation

- Assess
  - Determine current state
- Remediate
  - Ensure use of best practice
- Training
  - Reinforce use of best practice
- Sustain
  - Ongoing assurance your system remains current

# Risk Assessments



# Typical Documentation Structure



# Creating Controls Example

## Identify Process

- Identify process for controls  
Example: Payment of non-payroll expenses

# Creating Controls Example

## Determine Risk(s)

- Identify process for controls
- Determine risk(s) inherent with specified process

Example:

- 1 – Payments to vendor is missed or late
- 2 – Payments are duplicated
- 3 – Payments made to incorrect vendor
- 4 – Payments made to fake vendor

# Creating Controls Example

## Develop Specific Controls

- Identify process for controls
- Determine risk(s)
- Develop control(s) to mitigate risk(s)
  - 1 – Invoices to be entered into AP upon receipt
  - 2 – Invoices approved by requesting/responsible departments with upper management authorization and documentation, as appropriate
  - 3 – Invoices paid from approved AP printout upon ED approval
  - 4 – Bank statements reconciled by independent party
  - 5 – Trend analysis established for re-incurring expenses

# Creating Controls Example

## Test Control(s)

- Identify process for controls
- Determine risk(s)
- Develop control(s) to mitigate risk(s)
- Test control(s), including walk-throughs

Test 1: Pick five payments monthly to verify:

- Authorized for payment against AP statement
- Proper approvals and documentation attached

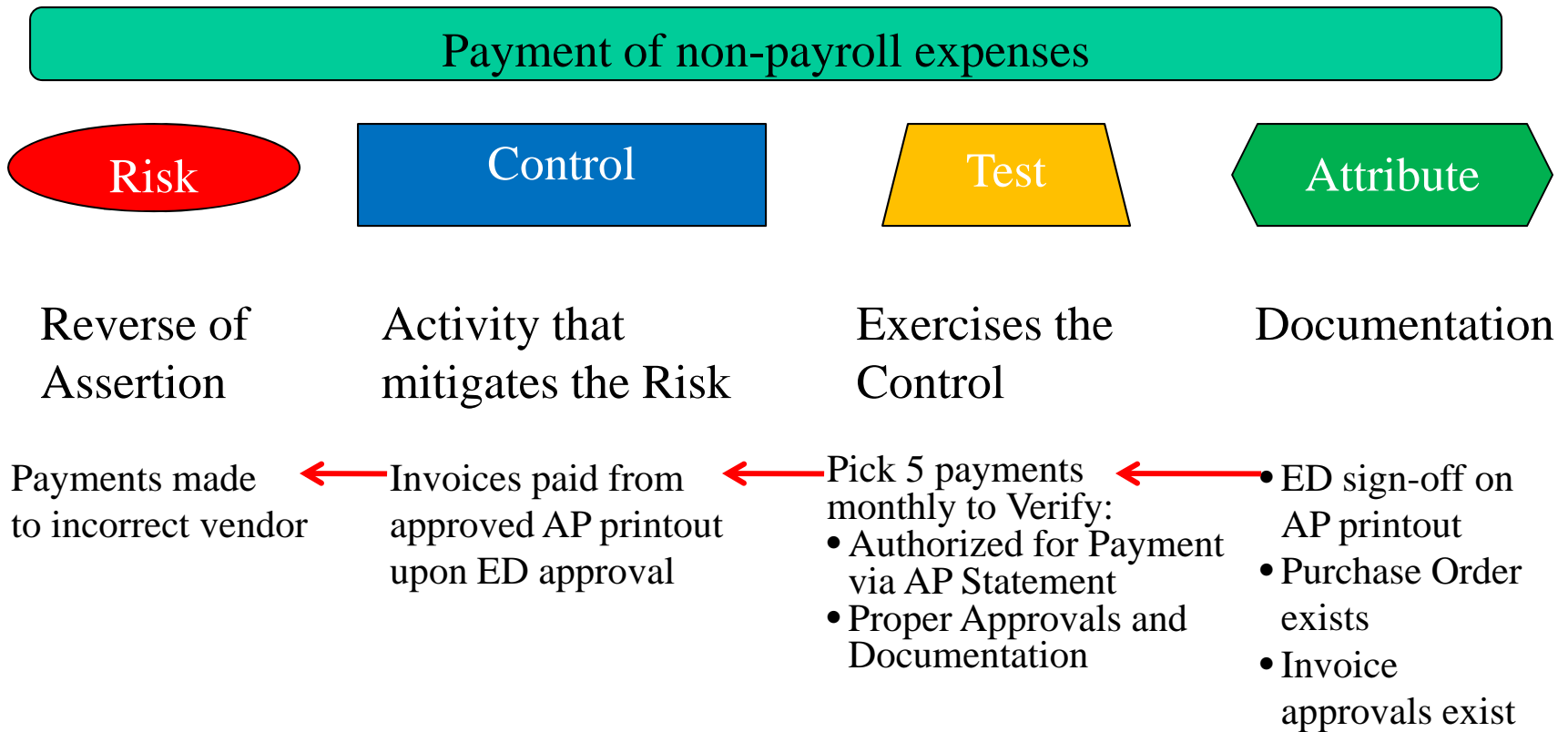
Test 2: Select all bank statements and verify that all bank accounts with transactions were reconciled by independent party

Test 3: Verify re-incurring expenses properly accrued/paid

# Creating Controls Example

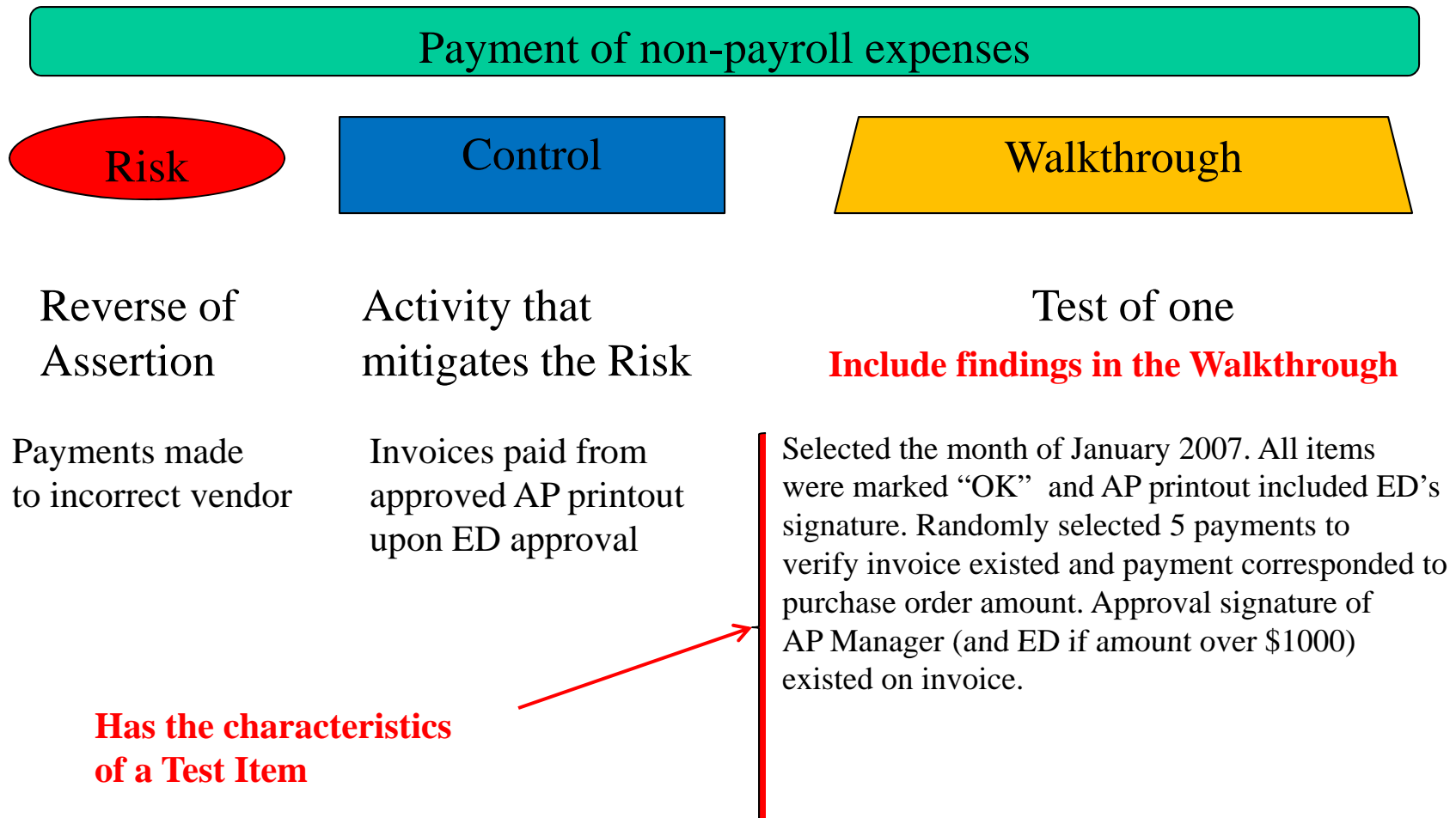
- Identify process for controls
- Determine risk(s)
- Develop control(s) to mitigate risk(s)
- Test control(s), including walk-throughs
- Document conclusions

# Proving Controls Are Effective



Result of Attribute affects Test, Control and Risk Conclusion

# Proving Controls Are Effective (Cont.)



# Determining Sample Sizes

Nature of Control	Frequency	Number of Selections	
		Planned Deviations	One Deviation planned
Manual	Many per day	25	50
Manual	Daily	15	N/A
Manual	Weekly	5	N/A
Manual	Monthly	3	N/A
Manual	Quarterly	1	N/A
Manual	Yearly	1	N/A
Automated Controls		Test one instance	
General IT Controls		Same as Manual above	

# 990 Tabs

Tab 1: Permanent Documents	Tab 8: Minutes of Committee meetings
Tab 2: Annual Documents	Tab 9: Risk Assessment
Tab 3: Insurance	Tab 10: Policy & Procedures
Tab 4: Monthly Variance Reports	Tab 11: Comments on Strength of Internal Controls
Tab 5: Monthly Balance Sheets	Tab 12: Employee Manual
Tab 6: Board Membership	Tab 13: Listing of compensation of all Officers and others earning more than \$100k
Tab 7: Minutes of Board meetings	Tab 14: Additional 990 tabs to be included depending on other special circumstances as defined in form 990.

# Nonprofit Starter Kit

- **Assessment** – Working session to conduct risk assessment, provide templates and train in the use of templates. Identify remediation activities
- **Review Session 1** – Review deliverables of your team to ensure proper quality. Conduct a training session on testing of controls
- **Review Session 2** – Review testing deliverables for accuracy. Provide template for final report
- **Produce Final Report** – Work with your team to finalize the final documents to support your Form 990
- **Phone and e-mail support** – Respond to inquiries and questions of your team throughout the entire process