NONPROFIT AGENDAS

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Succession planning: The future is now

When a senior leader leaves a nonprofit, it can affect every aspect of the organization. Whether the departure is planned, such as a retirement, or is unexpected due to a resignation, termination or death, you should have a plan to reduce disruption and ensure continuity.

Don't overlook the transition

Developing the right people to succeed your current leaders is only part of the formula for ensuring consistent, solid direction at the top. Onboarding isn't just important for lower-level employees, after all — it's essential for new leaders, too.

External hires will, of course, generally require more help becoming acclimated. Staff resistance to an outsider is always a possibility, and can even be an issue with internal hires. At the very least, expect some awkwardness when someone new comes in or a colleague is promoted to your organization's upper echelon.

Senior leaders and HR should anticipate these and other potential bumps in the road and craft plans to help successors navigate the transition. The plan can, as needed, provide for:

- Any necessary training that upgrades skills for new job duties,
- Integration of the individual into the organization,
- Progress monitoring,
- Goal setting, and
- Ongoing coaching.

The goal is for the individual to achieve independence and full confidence in his or her new role within three to six months.

Succession planning is perhaps more important than ever in a tight job market. Vacancies often become difficult to fill, especially for demanding, high-ranking positions. Here's how to put together a solid succession plan for your organization.

Focus on the right positions

Don't limit succession planning to the executive director (ED) position. Your plan should include every employee who's considered indispensable and difficult to replace due to experience, institutional knowledge or other characteristics. Whose departure would have the most significant consequence for your organization and its strategic plans?

When you look at it that way, you can see that succession planning often should be broader than first considered. In addition to the ED, you might need to develop plans for high-level staff (for example, the development director) and even board members.

Determine the requisite qualifications

This step calls for more than simply reviewing or updating job descriptions. Successors must have the requisite qualifications to carry out your organization's short- and long-term strategic plans and goals, which their job descriptions might not reflect.

HR experts emphasize that succession planning should take a forward-looking perspective. The current jobholder's experience and qualifications are only a starting point. What worked for the last 10 or 20 years might not cut it for the next 10 or 20.

Identify appropriate candidates

When the time comes, many organizations publicize open positions and invite external candidates

to apply. However, it's easier (and often advantageous) to groom internal candidates before the need arises. To do so, you'll want to identify your "high potential" (HiPo) employees — those with the ambition, motivation and ability to move up substantially in your organization.

Assess your staff using performance evaluations, discussions about career plans and other tools to determine who can assume greater responsibility now, in a year or in several years. You may discover HiPos in lower-ranking positions, so look beyond the director or manager level.

Develop individual action plans

Once you've identified potential internal candidates, it's time to develop individual plans for each to follow. Consider your organization's needs and plans, as well as each candidate's personality and learning style.

An action plan should include multiple components, such as job shadowing. This will give you a good sense of how a person would fill the position under consideration. It also can provide opportunities such as leadership roles on special projects, training, and mentoring and coaching. Share your vision for the person's future to ensure common goals. You can update action plans as your organization and employees' needs evolve.

If such an action plan seems like overkill, understand that it'll prepare candidates in a way that makes futures transitions less rocky and risky. Formal development plans also are likely to boost your recruitment and retention. But avoid leaving HiPos in holding patterns. If they don't receive timely promotions or other growth opportunities, they may pack up their skills and qualifications and leave.

Publicize the plan

Succession planning isn't something to keep under wraps. You won't receive the recruitment and retention benefits if people don't know you have formal plans for nurturing talent.

You'll also want to share the plan's existence with stakeholders, such as grant makers and major donors. They'll appreciate the assurance that you're prepared and are unlikely to end up knocked off course by a significant departure.

Embracing change

A leader's departure often raises concerns about falling morale, productivity and funding, but change doesn't have to be negative. When an organization is properly prepared, leadership change can be positive, garnering accolades and higher donations. It can also be a good time to examine priorities and realign some job responsibilities. ■

Warding off fraud at your nonprofit

Some simple measures can protect you

You might read about cases of corporate fraud and think, "That could never happen at my nonprofit." But you'd be wrong. Case after case shows that fraud is often committed by the most trusted or tenured nonprofit employees. So to protect the donations and grants entrusted to you, take steps to thwart potential fraudsters.

Is yours a culture of accountability?

It's often said that fraud prevention starts at the top. This means that your board of directors must acknowledge that fraud can happen in your organization and that it's their duty to prevent it. When the board insists on a culture of honesty and accountability, this attitude trickles down to executive offices, ordinary staffers and volunteers.

> *"You also must establish policies and procedures that everyone — including executives — is required to follow."*

It's also critical to treat employees well. The charity sector isn't known for paying high salaries to employees. But organizations that allow workers to grow resentful may unwittingly promote fraud, because occupational thieves often rationalize that they deserve more than they're getting. Even if your nonprofit's pay isn't equal to that of similar for-profit businesses, you can provide a congenial work environment that offers perks, such as flexible working hours and telecommuting.

What are your biggest risks?

However, an ethical culture alone isn't enough. You also must establish policies and procedures that everyone — including executives — is required to follow. One of the biggest mistakes an organization can make is to allow managers to routinely override fraud controls.

You won't be able to prevent every possible fraud scenario. But when designing controls, identify risks that are most probable and that would lead to the greatest financial, public relations or other consequences. Almost all nonprofits should include the following policies:

Perform background checks. How extensively you screen job applicants and volunteers may depend on their prospective duties. For example, ensure that accounting employees have no history of embezzlement or theft and aren't deeply in debt. At the very least, check all references and verify the applicant's previous employment, education, military service or professional designations.

Segregate duties. This involves separating duties among staffers so that no one person can exploit his or her access. For example, assign one employee to approve invoices, another to prepare checks and a third to sign them. If you don't have adequate staff to properly segregate duties, enlist the help of board members or consider outsourcing functions such as payroll.

Protect files. Make sure employees have access only to the files, programs and systems required to do their jobs. Password-protect all sensitive information and require passwords to be changed often.

Check spending. Require preauthorization for spending, limit credit card access and scrutinize staffers' expense reports. Also, have a board member review your executive director's purchases.

Count cash. When staffers or volunteers report event ticket sales, make sure they turn in a corresponding amount of cash — and the correct number of unsold tickets. Also compare cash receipts logs to the cash receipts ledger entry and actual bank deposit.

Verify vendors. Periodically audit vendor lists for anything suspicious, such as addresses that match those of employees or regular payments to one vendor that fall just below the amount required for approval.

Review bank statements. Have someone other than the individual who writes your organization's checks review monthly bank statements. And if you require dual signatures on large checks, don't rely on your bank to notice that one is missing.

Internal control policies should be in writing and posted where they're visible to everyone in your organization. In addition, they should be reviewed and tested regularly for continued efficacy.

Common frauds, effective controls

Common frauds that take place in nonprofits include skimming funds by unsupervised staff or volunteers, credit card abuse and expense reimbursement schemes. Also frequent are theft of supplies and other physical assets, phony invoices and payments to fictitious vendors. Your CPA can assist you in setting up internal controls to deter these and other frauds. ■

3 steps to effective benchmarking

Benchmarking your organization against set standards for productivity — and, yes, profitability — is a widely recognized method for boosting performance. Yet many nonprofits engage in the practice only sporadically, forfeiting some significant benefits. Make the process simple by following this three-step sequence.

1. Overcome resistance

The staff and board of directors aren't always "into" benchmarking. They may, for example, believe that the practice is more appropriate for profit-driven organizations than for mission-focused work. They might feel that mere numbers can't capture the true impact of a program or an organization. Or they may think that every organization is unique, making useful comparisons impossible.

But other stakeholders take a different stance, and their opinions may help sway staff and the board. Funders, in particular, increasingly rely on benchmarks to assess effectiveness when making funding decisions. Moreover, benchmarking provides critical information when developing and executing strategic plans. It can help you identify strengths, weaknesses and opportunities. And benchmarking allows not-for-profits to keep a steady eye on their financial health.

2. Focus on what's important

When you're ready to move ahead with benchmarking, select the right metrics — those that are vital to meeting your mission and most reflective of your operational effectiveness. They could relate to a variety of areas, from fundraising (for example, dollars raised or average gift amount) to online presence (number of followers or retweets).

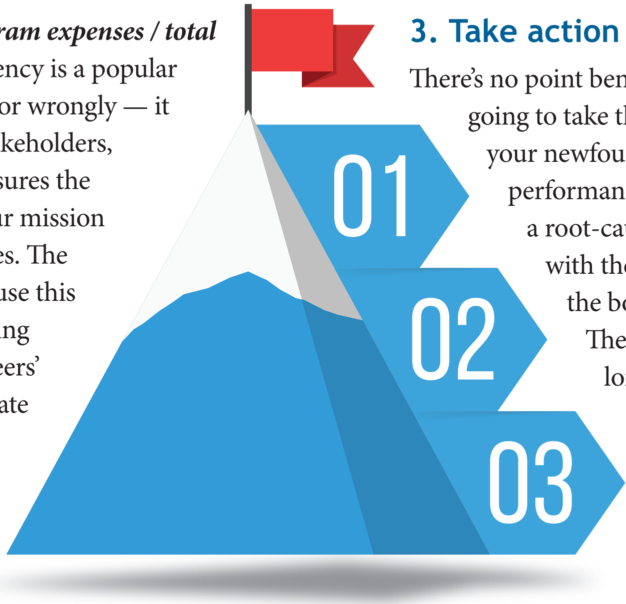
Many nonprofits, though, begin by focusing on the following:

Program efficiency (program expenses / total expenses). Program efficiency is a popular metric because — rightly or wrongly — it garners attention from stakeholders, especially funders. It measures the amount you spend on your mission vs. administrative expenses. The ideal ratio is 1:1, but because this is so unlikely, benchmarking your score against your peers' is necessary to truly evaluate your efficiency.

Organizational liquidity (expendable net assets / total expenses). This metric considers the percentage of your annual expenses that can be covered by your expendable equity (as opposed to reserves or restricted assets). Higher scores mean greater liquidity.

Operating reliance (unrestricted program revenue / total expenses). This calculation shows whether you could pay all your expenses solely from your program revenues. A figure close to 1:1 is very strong. But, again, comparing it with your peers' ratios will tell you if you're on solid ground.

Of course, you must be able to gather the requisite data, whichever metrics you end up using. That's where nonprofit rating websites like Charity Navigator and GuideStar come in handy. You can scrutinize other organizations' financial information, and the sites calculate scores for some of the most common metrics. You also might tap trade association and government databases (for example, the IRS's Tax-Exempt Organization Search or those kept by state tax agencies and attorneys general) for information, including audited financial statements.



3. Take action

There's no point benchmarking if you aren't going to take the final step of leveraging your newfound knowledge to bolster performance. Start by conducting a root-cause analysis of the areas with the lowest scores to get to the bottom of the problems. Then develop short- and long-term solutions.

Also consider arranging interviews or less formal discussions with representatives from peer or other organizations that boast high scores in areas where you fall short. You can use these to pick their brains for advice, short cuts or best practices that you can adapt for your own organization.

No time like the present

It's easy to stall on seemingly non–mission-critical tasks like benchmarking, but knowing where you stand is the key to long-term sustainability. Your financial advisor can give you a hand choosing the right benchmarks, collecting data and developing improvement plans.

Congress ends UBIT on transportation benefits

When Congress passed its new spending package in December, it repealed a controversial tax on nonprofits created by the Tax Cuts and Jobs Act (TCJA). The TCJA generally required nonprofits to handle the expenses associated with "qualified transportation fringes" (QTFs), such as certain parking arrangements, van pools and transit passes, as unrelated business taxable income (UBIT). Such income is taxed at the corporate tax rate of 21%.

The tax became effective on January 1, 2018. A January 2019 survey commissioned by Independent Sector found that it would divert an average $12,000 per year from a nonprofit's budget. But now organizations can redirect those funds toward their missions — including any taxes already paid on QTFs, which will be refunded. The repeal is retroactive for taxes paid or accrued after December 31, 2017. ■

How a new charity rating site assesses impact

Nonprofits have yet another rating to keep an eye on. ImpactMatters (impactmatters.org) rates organizations based on their cost-effectiveness. The service launched in November with ratings for more than 1,000 organizations.

ImpactMatters develops an equation to calculate the impact for different types of programs, such as veterans, hunger, clean water and homelessness. The equation combines data from a specific nonprofit (for example, the number of scholarships awarded) with social science research such as how a scholarship affects future earnings.

A nonprofit's score is compared with common benchmarks. If an organization provides a meal for $2, and the benchmark cost in the geographic area is $4, the organization earns a higher rating than a similar group that provides a meal for $5. ■

Organizations fret about the sale of .org registry

The Internet Society's (ISOC's) fall announcement that it's selling the rights to the .org registry to a private equity company has set off a wave of worry among organizations with .org addresses. The Public Interest Registry (PIR) has historically operated on a nonprofit basis, and organizations are concerned that the new owners might increase domain prices and censor site content. Long-standing price caps were removed earlier in 2019, which made the registry more appealing to private equity firms.

More than 500 organizations petitioned the ISOC to stop the sale of the PIR. In response, the Internet Corporation for Assigned Names and Numbers (ICANN), the group that oversees all domain names and must approve the transaction, has asked for additional information from the PIR. According to an agreement between the ICANN and PIR, ICANN promises to "thoughtfully and thoroughly evaluate the proposed acquisition to ensure that the .org registry remains secure, reliable and stable." ■

The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

This is where Sechler Morgan CPAs, PLLC comes in. Our team of experienced professionals cherishes the opportunity to support nonprofit organizations, meet their management challenges and fulfill their missions. We offer a variety of specialized accounting, tax and consulting services including:

- Audit intermediary services
- Budget and policy design
- Outsourced accounting/bookkeeping
- Tax form preparation (990, etc.)
- Strategic and management consulting
- Speaking on financial literacy and other topics
- Technology and virtual system design

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We are committed to providing responsive, personalized service to the highest quality. We take time to truly understand your Organization so that we can customize our recommendations to your specific situation. Our goal is to make your processes easier, streamline your operations and ensure your success in reaching *your* goals.

We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail info@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

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