Nonprofit Observer

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Whistleblower policies protect staffers — and their employers

This past summer, headlines blasted allegations that FIFA, the nonprofit international governing body for soccer, was riddled with corruption. The FBI's pending case against the organization appears to be founded partly on testimony from whistleblowers. Unfortunately, malfeasance (including many bribery incidents) is alleged to have gone on for years before whistleblowers spoke up.

FIFA's current situation highlights the need for nonprofits to protect themselves — as well as staff members, volunteers and board members — with formal whistleblower policies. Your nonprofit's reputation and financial security depend on it.

Smart practices

Whistleblower policies protect individuals who risk their careers, or take other kinds of risks, to report illegal or unethical practices. Although no federal law specifically requires nonprofits to have such policies in place, several state laws do. For example, New York's Nonprofit Revitalization Act of 2013 requires nonprofit corporations and charitable trusts with 20 or more employees and annual revenue in excess of $1 million in the prior fiscal year to adopt a whistleblower policy.

Moreover, IRS Form 990 asks nonprofits to state whether they have adopted a whistleblower policy. According to the form instructions, such policies encourage staff and volunteers to come forward with credible information on illegal practices or violations of organizational policies.

Adopting a whistleblower policy increases the odds that you'll learn about current or potential problems before the media, law enforcement or regulators do. Encouraging stakeholders to speak

up also sends a strong message about your commitment to good governance and ethical behavior and fosters an environment of accountability and employee empowerment.

Key provisions

Your whistleblower policy should be tailored to your organization's unique circumstances, but consider including the following general provisions:

Covered individuals. Spell out who is covered by your policy. In addition to employees, volunteers and board members, you might want to include clients and third parties who conduct business with your organization, such as vendors and independent contractors.

Covered wrongdoing. Financial misdeeds often get the most attention, but whistleblower policies should have a longer reach. For example, you might include violations of organizational client protection policies, conflicts of interest, discrimination and unsafe work conditions.

Reporting procedures. Explain the procedures for reporting concerns. Must claims be made to a compliance officer or can they be reported anonymously? Is a confidential hotline available? Whom can whistleblowers turn to if the designated individual is suspected of wrongdoing? These procedures should be clear enough to encourage individuals to come forward.

Investigative procedures. Covered individuals and other stakeholders need to know how you'll handle reports once they're submitted. State that every concern raised by a whistleblower will be promptly and thoroughly investigated and that designated investigators will have adequate independence to conduct an objective query. Ideally, investigators will report directly to your nonprofit's board of directors.

Also describe what will happen after the investigation is complete. For example, will the reporting individual receive feedback? Will the individual responsible for the illegal or unethical behavior be punished? If your organization opts not to take corrective action, be sure to document your reasoning.

Encouraging stakeholders to speak up sends a strong message about your commitment to good governance and ethical behavior.

Confidentiality. A promise of confidentiality can make whistleblowing more appealing. But it may not be possible to make such guarantees if whistleblowers need to become witnesses in criminal or civil proceedings. However, your policy should assure confidentiality to the greatest extent possible.

Disciplinary action. Not every whistleblower is motivated by pure intentions. State that your organization will take disciplinary action against individuals who make unfounded allegations that are reckless, malicious or intentionally false.

DON'T FORGET ABOUT RETALIATION

One critical component of a comprehensive whistleblower policy is the prohibition against retaliation. The Sarbanes-Oxley Act of 2002 explicitly prohibits charitable organizations from retaliating against a whistleblower who provides information on certain financial crimes. But your whistleblower policy should outline protections for all types of whistleblowers.

Protection for retaliation need not be absolute, though. Make clear that no retaliation — including harassment, termination and blacklisting — will be tolerated against anyone who raises concerns about potentially illegal or otherwise wrongful practices *in good faith*. "Good faith" means the individual has a reasonable belief that a problem exists.

Your antiretaliation provision should also specify the party to whom complaints of retaliation can be addressed. As with the overall whistleblower policy, you'll want to provide training to managers and board members. And violators should be disciplined promptly and appropriately.

Beyond the written policy

Simply establishing a whistleblower policy isn't enough. Be sure to distribute your policy widely, by, for example, incorporating it in your employee handbook and employee orientation program, and by presenting it to board members and managers.

Had FIFA followed such policies, it might have halted the alleged wrongdoing that has severely tainted its reputation and hurt its bottom line. Your organization doesn't want to make the same mistake.

Cash flow problems? Tackle receipt and disbursement issues

Declining donations, dues, grants or sponsorship funds often leads to nonprofit budget deficits. But you can reduce the risk of such deficits by improving your cash management, particularly when it comes to billing, receipts and disbursements. The following can help ensure that cash is available when your organization needs it.

Expedite receipts

The sooner your organization accumulates cash, the better your cash flow. To expedite cash receipts, consider moving your fundraising calendar ahead. By sending an appeal in July rather than November, for example, your nonprofit may receive significant cash in late summer. Then mail or email reminders in November to those who haven't yet given. By doing this, you're more likely to see contributions in December as well.

Try to collect installment donations earlier, too. Instead of waiting for each payment of a four-quarter gift, contact those donors who are clearly predisposed to giving. Asking for the remaining donation in advance may well speed up the process.

Technology is essential to expediting receipts. Many nonprofits continue to receive at least half of their revenue by check. But electronic payments are much more efficient for both organizations and donors. They also deter fraud by reducing cash handling.

Get the billing right

Billing errors, whether in the amounts invoiced or the recipients' mailing address, can delay payments and hamper cash flow. Take steps to get the details right on every invoice. For example, you can request updated address or credit card information in every encounter with a payer. Reports of declined credit cards should be reviewed regularly so that recurring payments can be made without delay.

Also make your invoices clear, clean and easy to understand. Use text descriptions rather than internal billing codes. The recipient should have no questions about what the charges are for or how they're computed. Confused payers may just set their bills aside.

And consider issuing bills earlier. If a charge is incurred at the beginning of the month, but you wait until the end of the month to bill — and then allow a 30-day grace period for payment — you're likely waiting at least two months to collect. A better approach might be on-demand or real-time billing, where you bill immediately and thereby reduce the lag time.

Several metrics will help you stay on top of your receivables. For example, Days Sales Outstanding (DSO) is a valuable tool for evaluating your effectiveness at collecting on invoices or even donation pledges. DSO is calculated by dividing the average receivable balance for a period by the total billed revenue for the period and multiplying it by the number of days in the period.

Better manage disbursements

Managing cash outflow goes hand in hand with accelerating incoming cash flow. If you're facing severe deficits, you may need to decelerate your bill payment or negotiate extended payment plans with vendors.

In crunch times, prioritizing disbursements is critical. But be careful: Although employee compensation can account for as much as 60% to 70% of some nonprofits' budgets, such compensation generally can't be delayed legally. For example, the IRS has strict rules about when deposits must be made to employee contributory benefit plans.

Taking charge

Even in relatively flush economic times, nonprofits need to take a proactive approach to managing cash flow. This will help you weather any financial storms that come your way.

Why good governance depends on an effective audit committee

Unlike public companies, nonprofit boards aren't required to have audit committees. So it's not surprising that 42% of nonprofits don't, according to Stanford Graduate School of Business's *2015 Survey on Board of Directors of Nonprofit Organizations.*

If your nonprofit belongs to that 42% — or you have an audit committee, but it's generally ineffective — consider taking action. Good audit committees help ensure financial integrity, limit risk and protect your reputation with regulators and the public.

Relevant to all nonprofits

An audit committee is an integral part of good governance, making it relevant for nonprofits of all sizes. You may be tempted to assign audit committee functions to your finance committee, but finance committees are mainly responsible for monitoring their nonprofit's budget and approving the distribution of its financial resources.

In contrast, an audit committee oversees:

- Financial reporting,
- External and internal audit,
- Compliance with legal and regulatory requirements, and
- Internal controls over these areas.

The audit committee's duties include such tasks as reviewing Form 990 filings and other reporting to regulatory agencies, studying audit results (and actions taken in response to such results) and deciding whether a second opinion is required to resolve auditing issues.

Ultimately, your audit committee is responsible for ensuring that all financial reports are accurate and that they portray your organization's condition and performance transparently. This means that, among other things, the committee should look for signs of fraud — such as unreported revenue — in your organization's financial statements.

Internal and external auditors

Audit committees regularly interact with both internal and external auditors, which includes approving the annual internal audit plan and reviewing internal auditors' reports. Your committee also may be responsible for approving the appointment of the head of internal audit.

Because audit committees are responsible for hiring, compensating and overseeing external auditors, they're considered both the auditors' client and point of contact with the organization. Your audit committee should regularly communicate with its auditors. For example, hold preaudit meetings to discuss your work plan, request regular updates during the audit and conduct postaudit discussions to review findings before you present them to your board.

Controlling risk

Risk management is central to all audit committee responsibilities. But your committee should also take specific measures to reduce your nonprofit's risk profile by conducting a comprehensive risk assessment.

This assessment needs to identify financial vulnerabilities such as those related to investment practices, antifraud policies, insurance coverage, and compliance with laws, regulations and donor and grantor requirements. Your audit committee should take the lead in ensuring that internal controls are effective in minimizing those risks it identifies as your nonprofit's greatest threats.

Ideal committee members

The composition of audit committees might vary, but one thing is certain — at least one member should have strong financial expertise. This expert will bring to your committee a working knowledge of financial reporting (including Generally Accepted Accounting Principles) and internal controls. Although for-profit experience doesn't hurt, the expert should have specific knowledge of nonprofit-sector accounting and financial reporting issues.

In addition, the American Institute of Certified Public Accountants recommends that at least a few audit committee members also be members of the board of directors. However, some states limit the number of audit committee members who also are finance committee members. And don't make the mistake of turning to your organization's treasurer. Because the audit committee is charged with independently monitoring financial results, appointing your treasurer to the committee could create a conflict of interest.

Above all, committee members must maintain their independence. They can't accept any consulting, advisory or other compensatory fee from your organization. And they shouldn't have been an officer or employee of your nonprofit (or the immediate family member of one) in the prior three years.

Improved practices and reporting

An effective audit committee can lead to improved financial practices and reporting, reduced fraud risk and enhanced internal and external audits. If you want to establish an audit committee, or are concerned that your nonprofit's current committee isn't making the grade, talk to your financial advisor.

Revisit your SEO strategy and boost your website's visibility

When did you last Google your organization's name or check to see if your website is among the top search results for relevant terms? Many nonprofits optimize their websites for search engines when they first launch and never again revisit their search engine optimization (SEO) strategy. Unfortunately, this is a recipe for online obscurity.

Important trends

Search engines regularly change their search result metrics, and your nonprofit needs to keep up with such trends. Pay particular attention to the following issues:

Keywords. Search engines rank Web pages, not entire websites, so you need to distribute relevant keywords throughout your headlines, content, titles and heading tags and meta descriptions. You can check the popularity of certain keywords using Google Trends. Also check your competitors' websites to see which keywords they use.

Mobile considerations. To get the most mileage with search engines, your website content *must* be mobile-friendly. Since the spring of 2015, Google has expanded its use of mobile-friendliness as a ranking factor (and now offers a Mobile-Friendly Test tool that can show how Google analyzes your pages). Search engine considerations aside, users increasingly access websites via mobile devices. If your site isn't easy to read and use on such devices, they'll quickly leave it.

Social media promotion. Whether you primarily use Facebook, Twitter, LinkedIn or other platforms, social media is instrumental in boosting the visibility of your nonprofit's website and, indirectly, your SEO. Include links to your site in social media posts so the links are shared when readers repost your content. The number of links to a website is an important ranking factor, but links from other sources are rated more highly than links from your own postings.

Links. Quality matters when it comes to incoming links to your website. A few links from sources with strong reputations in the relevant areas will be ranked higher than dozens from less credible sources.

Content. Substantive material, preferably not available elsewhere, draws high-value incoming links. If your staff isn't qualified to produce such content, SEO consultants can help.

Beyond Google

Remember that Google isn't the only search engine out there, and different engines use different ranking algorithms. On Yahoo, for example, your ranking improves based on longevity — the longer your site has been online, the better its ranking.

Other countries may favor home-grown search engines. So if you're trying to reach an international audience, consider your targets' search engine preferences and tailor your site accordingly.