



Holding Not-for-Profit Organizations Accountable

GFOA Conference



Presenters

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Introduction

- NPO Organizations are facing extreme funding challenges
- More and more pressure to cut costs while maintaining services
- Creates pressures on management of the NPOs to perform
- Question is whether or not NPO have the expertise to see what problems are coming



Need for Accountability

- Although NPOs are separate entities, if they receive municipal funds, there should be accountability for the use of those funds as it is public funding
- Should the NPOs be left to their own devices and/or mandate?



Are Accounting Failures a Global Issue?

- The Enron, Nortel, WorldCom and other major accounting failures have been well publicized
- Global responses for law makers, accounting governing bodies and governments with the hope of stopping this going forward
- Response has been aimed at public companies and those with a direct fiduciary capacity to stakeholders

- Is funding an NPO any different?



This is a local issue

- Certain NPOs within a community provide key functions
- What will happen if an NPO fails?
- Is it appropriate for a municipality to step in?
 - What cost would this present?
- If the food bank failed in the community, would your municipality be ready to step in and fill the need for families in need?



Who is held accountable?

- As a general rule, many NPOs are autonomous
- In the event of a failure, society feels the need to point fingers
- Who is accountable?
 - The Board of Directors?
 - Management?
 - Funders?



Media Pressure

- Nobody wants to be the cause of a negative front page headline
- The media is very quick to publish a high drama, negative story
- Failures of NPOs often make the perfect cover story, especially when it is public funding involved
- It may not cause you issues directly, but it is a massive issue for Council



Is it a Municipality's Responsibility?

- Can claim that it is not a legal responsibility
- What about use of taxpayer funds?
 - If municipality is providing funding, ultimately there is a duty of care, which taxpayers expect
 - Need to ensure that funds provided are being used for the manner in which they were intended
 - This should not be confused with assuming that all operations of the NPO should be monitored



What to do?

- It is often difficult to walk the line between ensuring effective use of funds without overstepping boundaries
- Screening and monitoring processes should be utilized to ensure that funds are used as intended
- Documentation is also extremely important in the event that there are future issues



Screening Process

- Potential contractors with a municipality often undergo rigorous screening through the tendering process
- Can the same be said about NPOs asking for funding?
 - Are decisions based on the community's need for what the NPO will provide?
 - Are decisions based on a sound business plan?
 - Do you know who serves as the Board on Directors and key members of management?
 - Does the NPO have the means to provide the service (even after the funding is provided)?
 - Do you have documentation of these answers?



Funding Agreements

- Proper documentation of the agreements is critical
- Defines roles
- Promotes accountability
- Need for definition of certain elements
- Should be more than a one page letter
- Consider multiple year agreements



Funding Agreements - Definition of Criteria

- Defines what funding is provided
- Defines what programs funding can be spent on
- Roles - both of municipality and NPO
- Roadmap for the entire partnership



Funding Agreements - Eligible Costs

- Should follow the nature of the agreement
- Use of funds should be consistent with municipal policies
- Needs to prevent NPO from using the funds to subsidize operations



Funding Agreements - Accountability

- Definitions of how use of funds is monitored
- Creates obligations for reporting (both financial and non-financial)
- Provides mechanisms for dealing with non-compliance
- Can you appoint a Board member?



Funding Agreements - Reporting

- In order to effectively monitor, without interfering with operations, a proper reporting model should be used
- Reporting can take the following forms:
 - Financial reports
 - Operational/results statistics
 - Formal management reports (in prescribed format or free form)



Funding Agreements - Recourse

- Mechanism to ensure accountability is met
- Defines what happens if service objectives/targets are not met
- Defines what happens if all funding is not fully spent on eligible cots
- Often this is as simple as creating the obligation for the NPO to repay, but can be more creative



Reporting

- Creating a consistent approach within the municipality will allow for better oversight
- Should encompass both a financial and non-financial component



Reporting - What do you get?

- From a financial perspective
 - NPOs do have to create annual financial statements, should you use those?
 - Are these statements independently audited?
 - How reliable are the statements?
 - Would the NPO be able to fill out a prescribed form?
- From an operational perspective
 - Does the NPO have any formal reporting?
 - Do you need to help give them guidance?
 - Would a prescribed form help?



Reporting - Consistency in Reporting

- Regardless of what management feels is sufficient, it needs to be consistent so as to allow for:
 - Comparability
 - Efficient and timely reviews
 - Assists in helping identify problems or irregularities



Reporting - Timeliness

- Should be provided within an acceptable period from the end of the reporting period
- The longer the period, the less chance to rectify problems or irregularities
- An appropriate period allows for time to be able to curtail annual funding if needed



Reporting - Review of Reports

- Operational reports should be reviewed by those with knowledge of the program being funded
- Financial reports should be reviewed by appropriate finance staff



Reporting - Ability to Audit

- Not all NPOs have annual audits performed
- Should have a mechanism that allows the municipality to step in should problems be indentified
- Auditing financial statements on a one-off basis can be costly and may not deal with operational issues
- Auditing prescribed forms can be done on an ad-hoc basis, and can deal with operational issues as well



Conclusion

- Providing public funding is an important function of municipalities
- Care must be taken to ensure that the funding is being expended as intended



QUESTIONS?