

# Corporate Citizenship

## Setting new standards

*Greater accountability  
push spurs nonprofits  
to intense self-review*

ELIZABETH HEUBECK | CONTRIBUTOR

A few years ago, Velma Hart, director of finance at Lanham-based American Veterans, began the cumbersome process of selecting new accounting software for the nonprofit — a critical investment at a time when nonprofits find themselves and their methods of self-regulation under ever-increasing scrutiny.

"We realized that in order to continue doing business, we had to make sure the data accountability is keenly and accurately tracked," she said.

Three years and just \$5,000 later, she settled on Sage MIP Fund Accounting, a program she says has the look and feel of a Cadillac without the price tag. Most important is the software's capability to comply with new and tougher regulations to which the entire nonprofit industry is subject.

"The accountability knob has been turned to the extreme. We're on broil now," said Hart.

### 'As easy as possible'

Under the spotlight after highly publicized scandals of the 1990s and earlier this decade, nonprofits have not only become subject to recent legislative reforms to boost accountability, many have voluntarily adopted internal practices that provide additional checks and balances.

Harvard-trained lawyer Peter V. Berns formed the Maryland Association of Nonprofit Organizations in 1992, the same year that William Aramony, the longtime CEO of the United Way of America, was forced to resign following inquiries into his spending and management practices.

In true domino-effect fashion, accusations of misdeeds involving other nonprofit leaders followed close behind. Although the spate of scandals was confined primarily to a smattering of high-profile nonprofits, it nonetheless damaged the entire industry's reputation and sparked a movement toward stricter self-regulation. And that movement



Maryland Nonprofits, headed by Peter V. Berns, developed governance standards adopted nationwide.

only gained momentum following reports in 2002 and 2003 of financial abuses at other high-profile organizations.

"From [Maryland Nonprofits'] very early stages of development, I started to think about how we as an organized nonprofit sector could minimize the chances of that happening in the future," Berns said.

It's a question that doesn't stray far from the minds of nonprofit officials these days.

Several organizations have put in countless hours to earn the rigorous Standards for Excellence seal, developed by Maryland

Nonprofits and considered nationwide to be a benchmark of good governance for nonprofits. Some nonprofits have adopted their own set of strategies, from improved database tracking to development of conflict-of-interest rules to more targeted fundraising strategies.

Though they vary in scope, the pro-accountability directives initiated by nonprofits in the region reflect a strong desire to self-regulate, observers say.

None is as apparent as the ethics and accountability code for the nonprofit sector

developed by Berns and Maryland Nonprofits. Public charitable organizations that voluntarily submit to a rigorous review of every aspect of their organization — and demonstrate 54 ethical standards above and beyond those required by local, state, and federal laws — earn the standards' certification, or Seal of Excellence.

Since the code was published in 1998, approximately 60 nonprofits in Maryland have received certification. In 2004, Maryland



# Standards: Earning governance seal requires 'detailed financials,' takes years

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Nonprofits launched the Standards for Excellence Institute to support a nationwide replication program of the standards. To date, 150 nonprofits across the country have adopted them.

"We believe we don't have the right to tell nonprofits to become certified unless we teach them how," Berns said. "So we created a comprehensive system of educational programming, including workshops and written materials. We make it as easy as possible."

Even with the support that the institute offers, earning the Seal of Excellence is a daunting venture.

"It is very rigorous. It's hard to get, and hard to keep," said Patrick Smith, spokesperson for the United Way of Central Maryland, which has earned and maintained the seal. "It includes very detailed financials — far more detailed than an annual report. And it takes a chunk of everybody's time every year."

According to Berns, organizations spend between two and three years to prepare to file an application, and another three to six months to actually complete it.

## Solving problems

Though he acknowledges that the process is time-intensive, Berns said it's not necessarily about the end product.

"While the certification is an award, every incremental improvement that an organization makes we think of as a success," he said. "These are best practice standards. I

don't expect we'll ever have all nonprofits meeting these."

Nonprofits that earn the seal are also devising other ways to hold themselves accountable.

In addition to earning the Seal of Excellence, the Columbia-based Horizon Foundation has taken independent steps to promote good governance. A strong conflict-of-interest clause in its bylaws, for instance, ensures that trustees who are on a board of an organization or involved in it during the grant-making process don't assert influence.



Nelson

The United Way recently embarked on an initiative that, by refocusing how it allocates funds, leaders hope will increase its ability to track them more closely. Called Community Impact, the targeted plan will provide larger grants to fewer organizations, based on four focus areas: school readiness, youth achieving potential, family safety and basic needs.

"We issued RFPs to the whole nonprofit community and explained up front how these grants will be tied to results in four core areas. We said, 'You tell us how you're going to make these problems better,'" Smith said.

T. Rowe Price Associates Foundation, the philanthropic arm of T. Rowe Price, finds it fairly easy to monitor the nonprofits to which employees contribute — by paying them a visit and, as the saying goes, kicking

the tires a little bit.

"Since they're local, we have the ability to be involved with them. We can actually visit them and perform pretty good due diligence," said Stacey Van Horn, executive director of the foundation.

While in-person visits can tell whether local nonprofits are operating effectively, so too can virtual visits. National nonprofit GuideStar, headquartered in Williamsburg, Va., provides an Internet-based file on every tax-exempt organization in the nation. GuideStar hopes to make even more information publicly accessible.

"We've been reaching out to nonprofits to tell the rest of their story," said Dan Moore, GuideStar's vice president of public affairs. Additional forms encourage organizations to reveal information on their senior staff, board members, goals and accomplishments.

## 'Fighting the good fight'

The nonprofit industry hopes its efforts to self-regulate don't go unnoticed by the government. A congressional committee approved legislation last June that would require nonprofits to file electronic tax returns; organizations that don't have to file returns will have to provide general information to the IRS every three years.

"We expect it will be increasingly important for Congress to understand that the nonprofit sector is actively involved in its own self-regulation," Berns said. "There is skepticism about whether there needs to be new laws as opposed to more enforcement of existing laws."

Additional legislative reform could prove costly to nonprofits.

"If they had to comply with Sarbanes-Oxley regulations, it could really be detrimental. It would be impossible for small businesses," said James J. Burns, president of New York-based wealth management firm J.J. Burns & Co. LLC and an advisor to nonprofits. Burns estimates that compliance with the regulations costs more than \$1 billion.

This kind of regulatory compliance isn't only costly, it's time consuming. In a study issued by Rand Corp. last July, researchers found that employees of a nonprofit social services agency in Pennsylvania spent nearly half their time and 11 percent of their annual budget collecting data for compliance regulations imposed by funding organizations, including county and state agencies and private foundations.

"They found different sources were asking for the same types of information in different ways," said Sandraluz Lara-Ciniso, a Rand behavioral scientist who conducted the study.

Nonprofits believe they are doing enough already to demonstrate accountability.

"The stories about bad behavior, some of which are terribly egregious, are not the norm," said Betsy S. Nelson, executive director of the Association of Baltimore Area Grantmakers. "On a day-to-day basis, the vast majority of nonprofits are ethical, accountable organizations fighting the good fight."

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