TRANSPARENCY, ACCOUNTABILITY, AND GOVERNANCE: A CALL TO ACTION

October 2006

New recommendations put the onus on associations to be good stewards of their resources and assets.

For several years now, voluntary and philanthropic organizations within the nonprofit sector have been the focus of congressional and public scrutiny. Scandals within charitable institutions seem to explode when the public becomes outraged at the apparent or implied misuse of donor funds.

Charities are accountable to their donors and funders as well as to the people they serve. Although associations may not be held to the same high standards, they have a similar responsibility to their members and respective industries. Few people outside the nonprofit world understand how the sector works and the various types of exempt status applicable to nonprofits (i.e., charitable, business leagues, social welfare organizations). Therefore, the public and, more importantly, members may have the same expectations for transparency and accountability for associations as they do for charities (this isn't necessarily a bad thing).

Congressional Activity

Congressional investigations of the nonprofit sector began after The Washington Post published a series of articles in May 2003 about the Nature Conservancy's business and governance practices, including charitable contributions, commercial activity and unrelated business income, and arrangements with insiders. On July 16, 2003, Senate Finance Committee Chairman Chuck Grassley (R-IA) and ranking Democrat Max Baucus (D-MT) notified the conservancy of the committee's investigation into the organization and of a broader goal to identify accountability and governance issues related to tax-exempt organizations and charitable contributions.

In the summer of 2004, the committee issued its preliminary report with recommended action items and held a hearing for nonprofit leaders to address the report's findings. The committee offered some fairly onerous suggestions that would have a significant effect on all nonprofits but particularly on the hundreds of thousands of smaller charities. The following September, Grassley and Baucus contacted Independent Sector, a leadership forum within the charitable community, to assemble an independent group of leaders to develop methods to strengthen governance, ethical conduct, and accountability within the charity sector. The resulting Panel on the Nonprofit Sector issued a final report in June 2005 detailing actions nonprofits can take to strengthen their accountability and governance practices.

Independent Sector's Response

The panel's report, "Strengthening Transparency, Governance, and Accountability of Charitable Organizations," is a must read for all association executives wanting to focus their efforts on transparency and accountability. The report offers 15 recommendations regarding

- federal and state enforcement,
- Internal Revenue Service reporting,
- periodic review of tax-exempt status,
- financial accountability,
- board composition and compensation,
- executive compensation, and
- conflict of interest and misconduct.

Many of these recommendations will be codified by Congress and state legislatures. Already, California has passed the Nonprofit Integrity Act of 2004, which has a wide-ranging impact on any nonprofit with a presence in the state.

The final outcome of the panel's recommendations may lead to significant regulation and oversight perhaps of greater magnitude than the Sarbanes-Oxley Act. Although associations are not the direct targets of these investigations and hearings, many associations have foundations and other charitable entities that will be affected by any new laws and regulations.

Readily Available Resources

Accountability is crucial to the nonprofit sector even beyond the level required of the private sector. For-profit corporations are responsible to their stockholders and investors, while charities are dependent on the public's trust to provide services, receive donations, and recruit volunteers to achieve their missions.

The charitable sector has been addressing the issue of accountability for many years, and there are many resources available to association executives:

- In 1994, the Minnesota Council of Nonprofits developed Principles and Practices for Nonprofit Excellence, a set of accountability principles and management practices for charitable organizations.
- In 1998, the Maryland Association of Nonprofit Organizations introduced Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector, a voluntary certification program for nonprofits. The program

has been replicated in seven states, and a national Standards for Excellence program was launched by Baltimore's Standards for Excellence Institute in July 2005.

With permission, the Michigan Nonprofit Association modified the Minnesota program and introduced Principles and Practices for Nonprofit Excellence in Michigan in April 2005 that includes a basic infrastructure checklist.

Independent Sector created a Checklist for Accountability that includes a 12-question quiz for testing your accountability IQ.

Call to Action

Association executives are encouraged to stay ahead of the curve. Most associations are complying with the spirit of the Sarbanes-Oxley Act, although very few of the act's provisions apply to nonprofit organizations. A similar effort should be made to meet the standards or best practices for transparency, accountability, and ethics. Boards and senior management must lead this endeavor first through a self-assessment and then an action plan to create an environment fostering transparency and accountability. As holders of the public's and members' trust, associations have a responsibility to be good stewards of their resources and assets by operating as transparently as possible with a high level of accountability to members and other stakeholders.