

BASIC OPERATIONAL MISTAKES AND FRAUD DOES OCCUR AT U.S. NONPROFITS

THERE IS AN EASY SOLUTION TO REDUCING THESE LOSSES

There are 1.5 million U.S. nonprofits. Together they are estimated to lose more than \$40 Billion annually, to basic operational mistakes and fraud.

When significant losses do occur, mission dollars are lost, executives are embarrassed and donors, the public and funding agencies can lose confidence.

The IRS and most auditing professionals will suggest that a major contributor to nonprofit losses is lack of sound internal controls and oversight.

THE NONPROFIT PROTECTOR/ MAJOR RISK INVENTORY (MRI)

This program identifies specific risk potentials in the categories of Governance, Accounting and Purchasing, Insurance Coverage, Human Resources and Safety and Emergencies. A total of 75 risks that are likely to occur at nonprofits of any size.

LOSS PROTECTOR/MRI 'AFFIRMATIONS'

The format for the collection of potential loss information is a questionnaire called "The Major Risk Inventory". This questionnaire is to be completed semi-annually by the nonprofits Administrative Officer and Senior Financial Officer.

Basically, the Loss Protector Program should be thought of as an important business control requiring minimal effort to semi-annually self-audit areas of demonstrated business risk.

The MRI program uses 75 'Affirmation Statements' that presume a currently safe status of each risk. Separately, a Risk Explanations Guide is provided to address the reasons for requiring each affirmation.

When completed, a "perfect" Affirmations MRI would have zero exceptions to the statements within the total affirmations presented. That seldom happens! Typically, there will be 4 or 5 affirmations that are not entirely accurate when the MRI is completed.

As example, a funding agency may be late in their contracted payments, or some form of litigation may have been threatened. In those cases, a corrected status is entered on the line immediately below subject affirmation, in red type. See page opposite.

SEMI-ANNUAL REVIEW OF POTENTIAL RISKS

Affirmations as addressed cover each risks status since the last MRI (6 months). Completion of The Major Risk Inventory should take approximately two hours, twice a year. Completed MRI reports are subsequently maintained by the nonprofit's administration.

'PROACTIVE' DUE DILIGENCE

Thereafter, completed MRI questionnaires are distributed to the full board or a committee thereof.

It is important, though, that the board be informed of the program at its outset. That can be accomplished by presenting to them copies of this brochure addressing the MRI program, the model completed MRI questionnaire provided, and a copy of the Risk Explanations Guide. All forms are downloadable with the program.

This initial presentation will inform the board of the breadth of this program's protection and the frequency of its employment. And it will support the concept of a high level of 'proactive due diligence' which few other nonprofits can otherwise evidence.

The described program will better enable nonprofit boards to perform the type of due diligence their positions anticipate. Essentially, boards will be better equipped to assist their agencies as a first line defense against any potentially serious operations or fraud losses through serious financial oversight.

PROFESSIONALISM AND SUSTAINABILITY

The Nonprofit Loss Protector/ MRI Program is a solid form of protection from costly operational mistakes and fraud. It will improve user nonprofits professionalism and sustainability.

PROGRAM DEVELOPMENT

The Nonprofit Loss Protector/ Major Risk Inventory Program was developed by Dennis Clark, former CEO of Goodwill Industries of Broward County, Florida for 13 years and former president of two South Florida banks for 15 years. Mr. Clark also served as board president or chairman of 8 Broward County, Florida nonprofits during his career.

THE NONPROFIT PROTECTOR (MRI) PROGRAM

THE MAJOR RISK INVENTORY PROGRAM CONSISTS OF:

- A program brochure
- A blank MRI Questionnaire
- A completed model MRI Questionnaire
- An MRI Explanation Guide detailing why each affirmation is important.

MAJOR RISK INVENTORY (MRI) QUESTIONNAIRE EXAMPLE PAGE BELOW:

ACCOUNTING AND PURCHASING AFFIRMATIONS:

GENERAL LEDGER ACCESS REMAINS STRICTLY CONTROLLED

COMPUTER USE RESTRICTIONS HAVE BEEN REPUBLISHED, DISTRIBUTED

PAYROLL ACCESS REMAINS RESTRICTED TO SPECIFIC, NECESSARY STAFF

CHECKS RECEIVED ARE DEPOSIT STAMPED IMMEDIATELY UPON RECEIPT

CASH CONTROLS LISTED IN POLICIES ARE BEING FOLLOWED AS LISTED

NO ACCOUNTS PAYABLE OBLIGATIONS EXCEED 60 DAYS

THREE (3) PAYABLES TOTALING \$18,000 ARE PAST DUE MORE THAN 60 DAYS

NO ACCOUNTS RECEIVABLE ARE PAST DUE MORE THAN 60 DAYS

ACCOUNT RECEIVABLE: STATE OF FLORIDA OVERDUE \$40,000 FOR 54 DAYS

NO CHARGE-OFF OF RECEIVABLES OCCURRED DURING THE PERIOD

BANK AND CREDIT CARD RECONCILEMENTS ARE CURRENT

NO EMPLOYEE LOANS OR SALARY OR EXPENSE ADVANCES WERE MADE

PAYROLL TAXES / HEALTH INSURANCE PREMIUM PAYMENTS PAID TIMELY

CHECK SIGNING AUTHORITIES REMAIN UNCHANGED FROM PRIOR PERIOD

NO COMMERCIAL CHECKING ACCOUNT OVERDRAFTS OCCURRED

NO LOANS WERE TAKEN OUT, MATURED OR WERE RENEWED

LINE OF CREDIT INCREASED \$ 20,000 BOARD RESOLUTION DATED 3/11/20

INVESTMENT POLICY FOR EXCESS FUNDS REMAINED UNCHANGED

PURCHASING QUOTE AND BID PROCEDURES WERE STRICTLY ENFORCED

AGGREGATE PURCHASES/SAME VENDOR WERE REVIEWED

INVENTORIES HAVE BEEN PERFORMED ACCORDING TO SCHEDULE

NO CONTRACT WORK WAS DONE BY DIRECTORS, STAFF OR RELATIVES

NO PURCHASES HAVE BEEN MADE FROM STAFFMEMBERS OR CLOSELY ASSOCIATED ENTITIES

NO EMPLOYEE IS ALSO EMPLOYED BY A VENDOR

THE MAJOR RISK INVENTORY MRI PROGRAM

This program was developed to provide nonprofit executives with a systematic way to recurrently reevaluate the significant risks in the major business functions under their control.

Semiannual completion of the Major Risk Inventory will provide a higher level of protection from both fraud and potential operational risks.

MRI PROGRAM BENEFITS

- Provides a high level of protection from operational losses and fraud
- Trains administrators to recognize major exposures
- Alerts users to emerging problems
- Assures board due diligence and financial oversight
- Helps maintain focus on IRS form 990 regulations
- Impresses donors, funders and auditors

STEPS TO IMPLEMENTATION

1. Download the Program Brochure, both MRI Questionnaires and the MRI Affirmations Explanation Guide from website. Configure first four pages to create an 11 x 17 brochure on color copier. Use heavier weight paper or card stock.

2. Process: Administrative Officer and Senior Financial Officer review Questionnaire for affirmation correctness. No change to an affirmation indicates that the completion team agrees to the currently printed status of the affirmation. Any corrections necessary should be done in red type immediately below subject affirmation. MRI report is then signed and dated.

3. Make any operational changes necessitated by corrections noted under any affirmation.

4. Select the next date for completion six months forward.

5. Repeat the above steps every six months.

Note: This program is designed for nonprofits with a single headquarters and no locations in other counties. Otherwise, the completion team will have to prepare the standard MRI Questionnaire to address potential risks for the enterprise – and then develop a collapsed version of the MRI. This includes sections addressing Governance with Purchasing – and then creates a Satellite Model MRI by carrying over from the remaining affirmations, those affirmations that may relate to satellite activities.