

University of San Diego

Digital USD

Program Design and Evaluation

USD Nonprofit Leadership and Management
Master's Program Best Practice Library

12-2011

City Heights Community Development Corporation Performance Audit

Pamela Gutierrez
University of San Diego

Kim Herbstritt
University of San Diego

Summer Polacek
University of San Diego

Meredith Pranievicz
University of San Diego

Maria Trias
University of San Diego

Follow this and additional works at: <https://digital.sandiego.edu/npibpl-programdesign>



Part of the [Nonprofit Administration and Management Commons](#)

Digital USD Citation

Gutierrez, Pamela; Herbstritt, Kim; Polacek, Summer; Pranievicz, Meredith; and Trias, Maria, "City Heights Community Development Corporation Performance Audit" (2011). *Program Design and Evaluation*. 2. <https://digital.sandiego.edu/npibpl-programdesign/2>

This Report is brought to you for free and open access by the USD Nonprofit Leadership and Management Master's Program Best Practice Library at Digital USD. It has been accepted for inclusion in Program Design and Evaluation by an authorized administrator of Digital USD. For more information, please contact digital@sandiego.edu.



Performance Audit

December 2011

University of San Diego
Nonprofit Leadership and Management
Pamela Gutierrez
Kim Herbstritt
Summer Polacek
Meredith Pranievicz
Maria Trias

Table of Contents

PERFORMANCE AUDIT OVERVIEW	3
INTRODUCTION	3
METHODOLOGY	3
SCOPE OF WORK	4
FINDINGS/RECOMMENDATIONS	5
SECTION 1: MISSION AND PROGRAM	6
DEVELOPING AND REVISING THE MISSION STATEMENT	6
PROGRAM EVALUATION.....	8
PROGRAM SERVICE.....	12
SECTION 2: GOVERNING BODY	13
BOARD RESPONSIBILITY AND PLANNING.....	14
BOARD COMPOSITION	16
BOARD CONDUCT	19
SECTION 3: CONFLICT OF INTEREST	20
SECTION 4: HUMAN RESOURCES.....	22
SECTION 5: FINANCIAL AND LEGAL	24
FINANCIAL PLANNING AND MONITORING	24
FINANCIAL POLICIES	26
LEGAL REQUIREMENTS.....	28
SECTION 6: OPENNESS.....	28
SECTION 7: FUNDRAISING.....	30
FUNDRAISING COSTS.....	30
FUNDRAISING PRACTICES.....	31
EMPLOYMENT OF FUNDRAISING PERSONNEL AND ENGAGEMENT OF FUNDRAISING CONSULTANTS	34
SECTION 8: PUBLIC AFFAIRS AND PUBLIC POLICY	35
NONPARTISAN.....	36
REVIEW OF EDUCATIONAL MATERIAL	37
OTHER DISCLOSURES.....	38
CONCLUSION.....	38
REFERENCES.....	38

Performance Audit Overview

Introduction

The City Heights Community Development Corporation (CHCDC) is a 30-year-old nonprofit organization that strives “to enhance the quality of life in City Heights by working with the community to create quality affordable housing, livable neighborhoods, foster economic self-sufficiency, and stimulate investment” (City Heights Community Development Corporation, 2009).

The organization has recently gone through significant changes in the last year, and it now has a new leadership team. The new leadership team is comprised of the Executive Director, Ken Grimes, Associate Director, Emily Monahan, and the Development Director, Laura Ann Fernea. The Executive Director, Ken Grimes, has been with the organization since November 2010 where he served as Associate Director, and he was later promoted to Executive Director during July 2011 after the Executive Director of 20 years left the organization.

The CHCDC is an instrumental organization and an asset to the diverse community of City Heights. The leadership team is enhancing awareness, working through adaptive challenges, building relationships with potential funders and partners, and establishing a healthy organizational culture. Most importantly, the organization is taking the right steps to ensure it stays true to its mission by meeting the needs of the City Height’s community. The consulting team performed a comprehensive audit to ensure the company was in compliance with best organizational practices.

Methodology

The consulting team utilized *The Standards for Excellence Institute: An Ethics and Accountability Code for the Nonprofit Sector*® (*Standards*®) as the evaluation tool for the CHCDC performance audit. *Standards*® is highly recommended by nonprofit consulting experts as a best practice; it is thorough in scope and easy to understand. Due to the complexity and size of the CHCDC, *Standards*® provided a more comprehensive assessment guide than other publications

such as the *Better Business Bureau: Wise Giving Alliance Standards for Charity Accountability*® and *The Independent Sector's Compendium of Standards, Codes, and Principles of Nonprofit and Philanthropic Organizations*®. The CHCDC leadership team fully embraced the consultants' recommendation to apply the *Standards*®.

Throughout the auditing process, the consultants reviewed numerous documents, policies, and procedures in accordance with *Standards*®. The consultants met with with members of the CHCDC on multiple occasions and attended the board retreat and strategic planning session to ensure full, partial, or non-compliance according to *Standard's*® guidelines.

Scope of Work

The initial meeting with the CHCDC leadership team took place on October 21, 2011. The entire consultant team (Pamela Gutierrez, Summer Polacek, Meredith Praniewicz, Kim Herbstritt, and Maria Trias) met with the leadership team of the organization (Ken Grimes, Emily Monahan, and Laura Ann Fernea) as well as with Julie Barajas, the Office Manager. This initial meeting with the CHCDC leadership team set the tone for the remainder of the auditing process because they were receptive, transparent, and open to evaluating all aspects of the organization.

Throughout the duration, we, the consultants were impressed by the CHCDC leadership teams' sincere interest, excitement, and commitment to the performance audit. After the first introductory meeting, we had many opportunities to exchange information with the CHCDC. We held all meetings in the beginning of November. On November 6th, four of the consultants (Pamela Gutierrez, Meredith Praniewicz, Kim Herbstritt, and Maria Trias) met with Emily Monahan and discussed performance areas: Public Affairs and Public Policies, Financials, and Human Resources. On November 7th, two of the consultants (Meredith Praniewicz and Maria Trias) met with Ken Grimes and Laura Ann Fernea and discussed Fundraising; later that day Maria Trias met with Emily

Monahan gathered information concerning the organization's Mission, Program Evaluation, and Openness. On November 9th, Summer Polacek and Maria Trias met with the President of the Board, Steven Russell, as well as the Executive Director and discussed Board Governance. Furthermore, three days later, several members of the consulting team (Kim Herbstritt, Summer Polacek, and Maria Trias) were invited to join and participate in the Board Retreat held at the University of San Diego. The meetings were helpful in understanding the organization for the performance audit. However, the CHCDC leadership team accommodated as much as possible.

Standard's® required the consulting team to review materials from the last three years. Some of the documents provided and reviewed included program evaluation reports, board minutes, bylaws, financial statements and audits, human resource policies, and drafts of manuals and strategies. On many occasions it was difficult for the CHCDC to provide the requested materials due to insufficient document retention.

Findings/ Recommendations

After reviewing the provided materials and comparing them to *Standard's*® best practices, the CHCDC is in compliance in 61 out of 106 areas. Areas in need of improvement include either fall under non-compliance or partial compliance with non-profit best practices and procedures.

At the request of the CHCDC, we prioritized the following areas needing immediate attention as indicated below (see Performance Audit Matrix):

- Mission and Program
- Fundraising
- Conflict of Interest
- Public Policy and Advocacy

To help the organization accomplish its desired level of performance, the consultants have made several recommendations in the report with accompanying recommended best practices. All of the supporting “best practice” documents can be accessed through the Performance Audit Matrix

attached to this report. These findings will be presented to the Board of Directors during an upcoming board meeting scheduled for February 2012. We believe that this performance audit is just one of the many pieces that the CHCDC is using to help guide them during this transitional time.

Section 1: Mission and Program

Developing and Revising the Mission Statement

As the *Standards*® states:

The organization's purpose, as defined and approved by the board of directors, should be formally and specifically stated. The organization's activities should be consistent with its stated purpose.

A nonprofit should periodically revisit its mission to determine if the need for its programs continues to exist. The organization should evaluate whether the mission needs to be modified to reflect societal changes, its current programs should be revised or discontinued, or new programs need to be developed. (2009)

The CHCDC has a mission statement that complies with the *Standards*®. Its programs are consistent with the mission and vision. The mission is: “to enhance the quality of life in City Heights by working with our community to create quality affordable housing and livable neighborhoods, foster economic self sufficiency and stimulate investment.”

Based on conversations with the Executive Director and the President of the Board, the mission statement was last reviewed and slightly changed 2 years ago. This was done in a failed attempt to design a strategic plan for the organization. The mission was modified so that it would include the idea of "stimulating investment." There is no tangible evidence on how the change was approved by the Board of Directors. Nevertheless, we do recognize the CHCDC’s intention to review the mission when immersed in a strategic planning process. In addition, we recognize the CHCDC plans to revisit the mission statement as part of the strategic plan they are currently working on.

According to the Executive Director, the Associate Director and dialogue generated during the board retreat, there is a generalized idea that the mission should be carefully re-examined. Given this situation, the consultants have compiled mission and values best practice samples in the Performance Audit Matrix Section I-a. However, the *Standards*® does not endorse a particular style or format for mission statements, instead it states that: “the mission statement is most effective when it is brief, yet broad enough to encompass present and future programs” (*Standards for Excellence*®, 2009). In addition, the mission statement should be an “inspiring statement about your reason for being”, and should strive to respond to the following questions: “why you exist and why are you needed, how you do it, what you value and who you serve.” Good mission statements should clearly reveal the uniqueness and differentiate the CHCDC from other similar organizations (Libby, 2007). In order to facilitate and encourage this conversation, we are providing the CHCDC with a list of examples of mission statements used by different Community Development Corporations in the Performance Audit Matrix Section I-a.

In approaching the revision of the mission, *Standards*® require that any changes are “formally adopted by a vote of the full Board of Directors” (2009). We recommend that the CHCDC leadership team and Board of Directors carefully handle this process in the future. Any changes and the date in which they were approved should be clearly described in the board minutes, and filing the changes with the IRS is also crucial (*Standards for Excellence*®, 2009).

In addition, the board should remain intentional about maintaining the integrity of the mission, especially as it adds new programs and expands existing ones. This effort may at times involve making the decision not to implement programs and activities that contradict the mission or to re-develop the mission as necessary.

Considering the board's interest in the idea of developing a case for the organization (presented at the board retreat by the Ocean Discovery Institute), the consultants have provided the Ocean Discovery Institute case as a sample in the Performance Audit Matrix Section I-a. As consultants, we do not think this is a priority for the organization right now since crafting such a document requires huge organizational effort, and there are many other issues that the CHCDC needs to focus on. Nevertheless, we provided this sample so the organization will be able to take it into account in the future.

Program Evaluation

As the *Standards*® states:

1. A nonprofit should have defined, cost-effective procedures for evaluating, both qualitatively and quantitatively, its programs and projects in relation to its mission. These procedures should address programmatic efficiency and effectiveness, the relationship of these impacts to the cost of achieving them, and the outcomes for program participants. Evaluations should include input from program participants.
2. Evaluations should be candid, be used to strengthen the effectiveness of the organization and, when necessary, be used to make programmatic changes. (2009)

Presently, the CHCDC has six running programs, through which the organization fulfills its mission. These programs include: Affordable Housing, Resident Self-Sufficiency, Workforce Development, Community Engagement, Active Transportation and Neighborhood Enhancement.

The CHCDC is in partial compliance in the area of program evaluation. This is mainly because they do not have a formal evaluation structure or procedure in place. According to the Associate Director, the way of improving and strengthening programs has been more reactionary than part of a stable and centralized review process. Both the Executive Director and Associate Director are aware of the need to develop a concrete evaluation structure.

Monitoring is referred to by the *Standards*® as an essential continuous process that every program should be engaged in, which involves collecting information related to the program and helps track the “direct products resulting from program activities” or outputs (Standards for Excellence®, 2009). Not all programs at the CHCDC have monitoring tools. The Resident Self-Sufficiency program recently developed a new monitoring tool that tracks activities offered, participants’ attendance, volunteer hours, number of bags of food distributed through their monthly Food and Living Essentials Cooperation. We recognize the CHCDC’s new leadership teams effort to develop and implement new tools that will measure the results of the programs and activities they offer the City Heights community.

Evaluation, however “goes beyond monitoring” and it is intended to assess the value of every program, in relation to outcomes, which refer to “how the program has changed conditions for the target population or problem” (Standards for Excellence®, 2009). Outcomes can be defined as short-term or long-term and also include those that weren’t planned but result from the organization’s efforts.

Program outcomes at the CHCDC have been designed and traditionally evaluated in relation to funder’s requirements. The leadership team is looking forward to developing their own organizational outcomes, while also incorporating the funder's outcomes. The Executive Director is presently working towards implementing Work Plans 2011-2012 for every program that include: objectives, activities and outcomes. We, the consultants recognize this new initiative as a big strategic step for the organization and encourage the CHCDC leadership team to further develop a more complete and comprehensive Logic Model that includes the following components: “inputs (human and financial resources, facilities, supplies and curricula), activities, outputs, initial outcomes, intermediate outcomes and long-term outcomes” (Standards for Excellence®, 2009). The

consultants have provided the *W.K. Kellogg Foundation Logic Model Development Guide* for review and consideration as well as two samples of comprehensive logic models from the Kellogg Foundation and the Center for Working Families (a self-sufficiency type of service), and a logic model template from United Way in the Audit Performance Matrix in Section I-d. The last one is specially recommended as it is simple and will get the organization started easily. Program evaluation and indicator development can be a lengthy process. The use of a logic model will help bring the process into focus, and the more detailed a logic model is, the more useful it will be in developing indicators.

In order to achieve best practice in the area of outcome evaluation, the consultants recommend the following:

1. Define outcomes by involving stakeholders “from inside and out” in order to receive diverse 360-degree viewpoints.
2. Consider three different types of outcomes: initial outcomes as changes in knowledge and skills at the end of a program, intermediate outcomes which are influenced by the initial ones and have to do with a behavioral change, and long-term outcomes that involve deeper changes in the participants’ lives, such as the improvement in participants’ future or condition (Standards for Excellence®, 2009). In order to engage the CHCDC in the outcome definition, the consultants have provided a capacity evaluation outcome chart from the TCC Group in the Audit Performance Matrix Section I-d.
3. Identify indicators: define “specific, observable, and measurable factors that show the success of the outcomes” (Standards for Excellence®, 2009). Every outcome should have a minimum of one indicator to measure it. The team has provided a metric template for outcome evaluation from the San Diego Family Asset Building Coalition (FABC), and a

library of sample dashboard indicators from CompassPoint in the Audit Performance Matrix in Section I-d.

Program evaluation is also in partial compliance, according to *Standards*® because it does not provide an evaluation of programmatic efficiency (measure of outcomes in relations to cost). Unlike for-profit companies, nonprofits have goals and missions that go beyond just the numbers. Thus, *Standards*® does not specify specific program evaluations due to the complexities of many nonprofit organizations (Standards for Excellence®, 2009). With this in mind, the consultants recommend that the CHCDC determine a cost-benefit analysis that is specific to its programs. The cost-benefit analysis steps described in the *Standards*® *Program Evaluation* that are taken from the *Handbook of Practical Program Evaluation*, can help get the CHCDC started. The consultants have provided the section of the *Standards*® *Program Evaluation* which refers to cost-benefit analysis for the CHCDC review (Section I-d).

Finally, the CHCDC has never had an annual program outcome report that is reviewed by the board. However, the board has a new Programs Committee, and the CHCDC staff recently developed a program update chart. We recognize the organization's effort to share program updates with the board, and strongly recommend the leadership team incorporate the Programs Committee in defining and institutionalizing the procedures for the program evaluation process.

We encourage the integration of the program evaluation as part of the natural program cycle, for it will help the organization adopt and develop a "learning" culture that will be crucial in guiding the organization to its best program's performance and mission development. The consultants have provided a section of the *Standards*® *Program Evaluation*, which refers to the program cycle (Section I-d).

Program Service

As the *Standards*® states:

In providing its programs or services, a non-profit should act with the utmost professionalism and treat persons served with respect. Where appropriate, a nonprofit should have policies in place that protect the confidentiality of personal information and should provide a grievance procedure to address complaints. Nonprofits should regularly monitor the satisfaction of program participant (2009).

Presently, the CHCDC is not in compliance in regard to program service. Although the CHCDC maintains all confidential documents in a locked cabinet, the organization does not have a defined procedure of confidentiality. The organization has a grievance policy for the Affordable Housing Program but this is not available to program participants in a regular or systematic way. “One of the most important aspects of grievance procedure is to ensure that all program participants, staff and volunteers are aware of the procedures for handling grievances” (Standards for Excellence®, 2009). As the CHCDC continues to expand its footprint in the community, it is recommended that the organization have policies and procedures in place regarding treatment of participants’ confidential information, as well as a grievance procedure to address complaints from program participants. This is especially crucial in the programs that serve low-income residents directly: Affordable Housing, Resident Self Sufficiency and Workforce Development. The consultants recommend that the CHCDC implement both a privacy rights and confidentiality policy, and a grievance policy in which we provided best practice samples in the Performance Audit Matrix in Section I-e and Section I-g.

Regarding the satisfaction of Program Participants, the CHCDC does not have any systems in place. Since *Standards*® states that participants satisfaction is “an important part of an organization’s efforts to evaluate and improve the programs and services it offers” (Standards for Excellence®, 2009), we recommend the CHCDC develop their own satisfaction tools with their

unique program and participants in mind. There are many different ways to measure the satisfaction of program participants: at the point of service delivery, through satisfaction surveys, periodic focus groups, and interviews. The consultants are providing three sample surveys for CHCDC review in the Performance Audit Matrix in Section I-f.

Section 2: Governing Body

According to the *Standards*®:

An effective nonprofit should be governed by an elected volunteer Board of Directors and consists of individuals who are committed to the mission of the organization. An effective nonprofit board should determine the mission of the organization, establish management policies and procedures, assure that adequate human resources and financial resources are available, and actively monitor the organization's financial and programmatic performance (2009).

The CHCDC Board of Directors is comprised of six committees and has delegated specific fiduciary duties to working board committees. According to the CHCDC Board of Directors Draft Manual the committees include:

- **Executive Committee:** Meets on alternate months when the board is not in session to fulfill the Board's fiduciary duties and acts for the board between meetings.
- **Audit Committee:** Meets once a year to review the findings of the annual audit, ensure the integrity of the organization's financial statements and the financial reporting process.
- **Development Committee:** Oversees the development and implementation of fund development and communication strategies, and review new business opportunities, proposals and ideas.
- **Finance Committee:** Reviews the organization's financial performance against its goals and proposes major transactions and programs to the board.

- **Housing Committee:** Ensures all properties meet affordable housing guidelines and are properly maintained, and guiding the development of new projects.
- **Programs Committee:** Responsible for review and oversight of all resident and community programs and initiatives.

After review of the CHCDC Board of Directors practices, the consultants found that the organization is in full compliance with 20 standards and in partial compliance with five of the 29 standards in the Governing Body section. The CHCDC is not in compliance with three standards, and one other is not applicable. The areas that the consultants have identified which need improvement in order to be in compliance include evaluations and documentation. These will be described below in Board Responsibility and Planning, Board Composition and Board Conduct.

Board Responsibility and Planning

As the *Standards*® states:

The board should engage in long-term and short-term planning activities as necessary to determine the mission of the organization, to define specific goals and objectives related to the mission, and to evaluate the success of the organization's programs toward achieving the mission (2009).

Although the board is not in compliance with all planning responsibilities, the board has already taken important steps by directing the organization to develop a strategic plan. It is an excellent start and is necessary to define specific goals and to measure progress (Standards for Excellence®, 2009).

In addition to the strategic plan being developed, the Board of Directors attends an annual board retreat. At the board retreat this year on November 12, 2011, Board members discussed Board Development and Execution, Case Development and Execution and Strategic Planning. They

also used a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, which assisted the group in identifying a bigger picture for the organization's strengths and weaknesses.

The board has also been diligent about financial planning and expenditures for the organization. *Standards*® recommend that financial assessments include an examination of the proportion of funds spent on programs, administration, and fundraising (2009). According to *Standards*®, “once you have planned for your programs, it becomes easier to budget around programs and determine if the planned program activities will be able to be funded in your upcoming fiscal year” (2009). Having an independent auditor create an overview of expenditures ensures that the board can fulfill its financial planning responsibilities.

The CHCDC is not in compliance with its responsibility to hire an Executive Director. The previous Executive Director of 20 years left the organization in June 2011. The Board of Directors did not have a succession plan in place and did not have procedures and practices in place to guide the executive director search. Even though the President of the Board, stated that the board already knew that the talent and best choice for the position was already in-house, the CHCDC needed to establish the search, application, interviewing and hiring process. According to Libby (2005), Director of the Institute for Nonprofit Education and Research at the University of San Diego, has a suggested executive search process that can be found in the Performance Audit Matrix II-e. Once the Board of Directors has appointed a new Executive Director, the compensation package agreed upon should be reflected in the board meeting minutes.

The CHCDC is also not in compliance with its responsibility to evaluate the Executive Director. Discussions with the President of the Board disclosed that the previous Executive Director left the organization, resulting in the annual evaluation of the previous Executive Director not being completed. The current Executive Director was hired in July 2011 and has not received

an evaluation from the board. Libby (2000), recommends that staff positions, including Executive Directors receive an evaluation at three months, nine months later, and close to the anniversary date. Evaluating the Executive Director is a crucial responsibility to ensure that the organization is meeting its goals and continues to be mission-focused.

The consultant team recommends that the Board of Directors adopt internal policies to evaluate not only the Executive Director, but also other key staff member's at/after the three months of being hired. In addition, any discussion or decision made regarding the hiring process, compensation package or evaluation procedures for the executive director needs to be documented in the board meeting minutes.

Board Composition

According to the *Standards*® the board should be composed of individuals who are personally committed to the mission of the organization and possess the specific skills needed to accomplish the mission.

Where an employee of the organization is a voting member of the board, the circumstances must insure that the employee will not be in a position to exercise undue influence.

The board should have no fewer than five (5) unrelated directors. Seven (7) or more directors are preferable.

The organization's bylaws should set forth term limits for the service of board members.

Board membership should reflect the diversity of the communities served by the organization.

Board members should serve without compensation for their service as board members. Board members may only be reimbursed for expenses directly related to carrying out their board services (2009).

After observing the current board members at the board retreat in November 2011, it appears there is a strong commitment to the mission of the organization.

The CHCDC is in full compliance with all of the areas in the Board Composition Section with the exception of board diversity and board term limits.

First, the bylaws mandate that there be no less than five and no more than eleven board members. *Standards*® recommends that there be at least 7 members (2009). There are currently 11 members on the CHCDC board. This current size is ideal because too few members would not be able to fulfill the fiduciary duties. Additionally, since the CHCDC has decided to diversify its revenue sources, having a larger, working board that can hold several skill sets and can challenge conflicts of interest is more appealing to funders (*Standards of Excellence*®, 2009).

Second, the board has clear procedures for electing board members. These procedures are specified in Section 4 of the bylaws. Board members are elected at the annual meeting in June of each year. There are communications that go out to members to engage them in the board election process. There are also procedures in place for board member resignation. However, the CHCDC is not in compliance with the best practice for term limits. Currently, board members serve a three-year term and can immediately be re-elected for an unlimited number of terms and without having a period of inactivity between terms. *Standards*® (2009), suggest that there be a period of time off between terms and suggests that there be a cap of how many total terms one can serve.

According to the bylaws, 6/11ths the board members must be from the City Heights community. The community is defined by the geographic area of City Heights, in the city of San Diego. The City Heights community is a diverse population with a high proportion of the residents considered to have a lower socioeconomic status. The area median income in City Heights is \$25,215, with 94% of the population earning below the San Diego median income of \$59,901. The major factors influencing such low figures are that a total of 38% of population have less than a 9th grade education level and 79% of the population speak a language other than English as their primary language at home, compared to 33% regionally. And, 43% of residents were born outside the United States (City Heights Community Development Corporation Strategic Plan, 2011).

The board diversity partially meets the *Standards*® recommendation that the board reflect the diversity of the communities served (2009). The board currently has five men (45%) and six women (55%) representing more than four ethnic groups on the board. The board is approximately 54% Caucasian, 18% Hispanic, 18% Asian, and 1% African American. (These numbers are rounded to the nearest .1% and are approximate numbers due to the fact that some board members represent more than one ethnic group.) The Executive Director and the board have a positive outlook on board diversity and want to diversify even more. Specifically, the President of the Board commented that the board reflects the diversity of San Diego, but not as much of the community as they would like. The board does not have anyone from the African community. The City Heights Somali, Burmese, Vietnamese and Hispanic population has increased, and the Board would like to reflect those changes. A very positive attribute that should not be overlooked is that the board members come from a variety of educational and professional backgrounds and age groups. The entire board is looking forward to cultivating a board that can grow, improve and continue to meet the needs of the organization. The Board of Directors is on the right track by expressing their interest to incorporate more board members from the community with experience and skill sets that are much needed by the organization.

Lastly, the CHCDC Board is a disinterested group of individuals that serve without compensation. They are not related to each other and are not related to CHCDC employees.

To move to full compliance, the board should amend the bylaws to establish term limits. There good and concise examples that can be found in the Performance Audit Matrix Section II-n. Additionally, to satisfy the concerns that the board needs to seek new members from certain ethnic groups and with specific skill sets, the consultants recommend that the CHCDC use the two part

diversity survey and assessment from the YWCA that can be found in the Performance Audit Matrix Section II-i.

Board Conduct

According to the *Standards*®, the board is responsible for its own operations, including the education, training and development of board members, periodic evaluation of its own performance, and where appropriate, the selection of new members.

The boards should establish stated expectations for board members, including the expectations for participating in fundraising activities, committee service and program activities.

The board should meet as frequently as needed to fully and adequately conduct the business of the organization. At minimum the board should meet four times a year.

The organization should have written policies which address attendance and participation of board members at board meetings, and which include a process to address noncompliance.

Written minutes reflecting the actions of the board, including reports of board committees when acting in the place of the board, should be maintained and distributed to board and committee members (2009).

The CHCDC is in compliance with board education; defining participation, including defining roles and responsibilities; and setting clear expectations. On the other hand, they are not in compliance with maintaining board minutes and self-evaluation.

Training and orienting new members is crucial to the success of an organization's board and its operations (*Standards of Excellence*®, 2009). The CHCDC is in compliance with this area. They have a draft of a board manual. The board manual is an excellent document that already includes a welcome letter, important organizational documents, lists board member job descriptions and expectations of each committee.

The bylaws require attendance and describe consequences for non-compliance. Plus, from the board manual, each committee has a charter with defined responsibilities for all members in the committee. There are clear expectations set for the board in the manual as well.

Periodically, the entire Board of Directors should evaluate its own performance as a whole and on an individual basis (Standards of Excellence®, 2009). The CHCDC does not currently perform evaluations and is not in compliance with this area. The consultants recommend that the board start with the assessment example from the National Council of Nonprofits, which can be found in the Performance Audit Matrix Section II-m, or the online assessment provided by BoardSource (2011), to determine what is most appropriate for the current board at this moment.

The final portion of the Board Conduct Section looks at board documentation and distribution of minutes. The board is in partial compliance with this section due to missing committee minutes. Over the course of the past year, the board has changed the format of the minutes and has been more diligent in reviewing and approving them.

The consultants recommend that the board continue the improvements that it has already begun, making sure to review and approve minutes in a timely manner. The consultants also suggest that an additional person review the date, time, attendance, and agenda items brought forth. There should be careful documentation of any decision made or discussions about pending decisions at board meetings. Further, we recommend creating policies that establish how non-agenda items are presented to the committee, establishing whether or not items need to come from a committee or can be addressed with the approval of a quorum, and what items are to be discussed in open session versus closed session (See “Executive Sessions How To’s” in Section II-b).

Overall, the board has made tremendous strides and should continue on this path of transparency.

Section 3: Conflict of Interest

As the *Standards*® states:

Nonprofits should have a written conflict of interest policy. The policy should be applicable to all board members and staff, and to volunteers who have significant independent decision making authority regarding the resources of the organization. The policy should identify the types of

conduct or transactions that raise conflict of interest concerns, should set forth procedures for disclosure of actual or potential conflicts, and should provide for review of individual transactions by the uninvolved members of the board of directors.

Nonprofits should provide board members, staff, and volunteers with a conflict of interest statement that summarizes the key elements of the organization's conflict of interest policy. The conflict of interest statement should provide space for the board member, employee or volunteer to disclose any known interest that the individual, or a member of the individual's immediate family, has in any business entity which transacts business with the organization. The statement should be provided to and signed by board members, staff, and volunteers, both at the time of the individual's initial affiliation with the organization and at least annually thereafter. (2009)

As stated above, the *Standards*® highlights the importance of a Conflict of Interest Policy, suggesting that all nonprofits have a written policy that outlines potential conflict of interests (2009). This policy should apply to all board members, staff, and volunteers with significant authority, and should also outline the procedures and managing of disclosures. The Conflict of Interest Policy is extremely important because it ensures that the board members and staff are properly executing their legal and fiduciary duties in the best interest of the organization. In addition, *Standards*® recommends that nonprofits have a Conflict of Interest Statement. All board members, staff, and volunteers should complete the Conflict of Interest Statement at the time of their orientation and that document should be updated annually.

The CHCDC is in partial compliance with this standard. They have a Conflict of Interest Policy, which is located in their Employee Handbook on page 42; however, this policy only addresses employees and fails to include procedures and managing of disclosures. After interviewing the Associate Director we learned they do not have a Conflict of Interest Statement, and currently have no knowledge of any potential conflict of interests within the organization. The conflict of interest is addressed in the Board of Directors Roles and Responsibilities document which states that the board "is responsible for adopting and implementing a Conflict of Interest Policy whereby board members' private interests must be disclosed and handled according

to the organization's policy to protect the interests of the organization” (Board Manual, 2011, p.28). Although outlined in the Board of Directors Roles and Responsibilities, according to the Associate Director, board members currently do not complete any Conflict of Interest Statement. The CHCDC’s current conflict of interest procedure consists solely of providing and reviewing the Conflict of Interest Policy with new employees, in which they then are required to sign an acknowledgement form.

As consultants, we highly recommend that the CHCDC implement a more inclusive Conflict of Interest Policy that outlines disclosure procedures, and a Conflict of Interest Statement that all board members, employees and volunteers must complete. We have provided sample best practices for both conflict of interest policy and statements in the Performance Audit Matrix, Section III-b and Section III-c.

Section 4: Human Resources

As *Standards*® states:

Personnel Policies: A nonprofit should have written personnel policies and procedures, approved by the board of directors, governing the work and actions of all employees and volunteers of the organization. In addition to covering basic elements of the employment relationship (e.g. working conditions, employee benefits, vacation and sick leave), the policies should address employee evaluation, supervision, hiring and firing, grievance procedures, employee growth and development, confidentiality of employee, and client and organization records and information.

Employee Evaluation: New employees of the organization should receive an orientation, which includes review of the organization’s personnel policies and procedures, and an introduction to the *Standards for Excellence*®. Employees should be provided with a copy of the personnel policies and these *Standards*®, and should acknowledge receipt in writing.

Human Resources: A nonprofit should have written policies and procedures approved by the board of directors, governing the work and actions of all volunteers of the organization.

With respect to volunteers, the organization’s policies and procedures should also address initial assessment or screening, assignment to and training for appropriate work responsibilities, ongoing supervision and evaluation, and opportunities for advancement. (2009)

The CHCDC provides all employees with their “Employee Handbook” which consists of their personnel policies. The handbook states the policies and procedures can be modified at any time, but must be approved and signed by the Board President. According to the board meeting minutes, the handbook was last modified, and approved by the Board of Directors on May 12, 2011. After reviewing the Employee Handbook we concluded that it satisfies most of the audit standards, however, there are two required policies that are currently weak or lacking: employee working conditions and grievance policy.

The Employee Handbook does not have a formal written working conditions policy, which addresses the safety conditions of the organization and accident prevention. However, the “Complaints Procedure” on page 30 indicates grievance procedures for working conditions. In addition, on pages 55-56 of the Employee Handbook there are a series of health and safety policies and procedures that broadly discusses working conditions. The CHCDC can strengthen their working conditions policy by implementing a formal policy, which directly addresses the Occupational Safety and Health Administration (OSHA) standards. Although not required by the *Standards*® we highly recommend that all job descriptions reference “working conditions” in accordance with each positions work responsibilities as per best practices.

Although the CHCDC has a “Complaints Procedure” it clearly specifies that it's not to be used as a formal grievance policy. The Associate Director clarified that they have recently implemented a grievance policy for the Affordable Housing Program, but the Complaints Procedure is the only internal policy for employees. The Complaints Procedure is an open door policy that all employees are to use when addressing an issue within the organization. However, there is no formal policy or procedure outlining grievance procedures for employees. We have provided

several suggested grievance policy samples in which we encourage the CHCDC to implement (Performance Audit Matrix, Section IV-a).

When evaluating the CHCDC volunteer procedures and policies we concluded the organization should implement a formal volunteer manual. According to the Associate Director maintaining quality volunteers is very important to the organization. Thus, all volunteers are currently required to complete an application, background check, waiver of liability and media release, and sign a volunteer agreement. The volunteer agreement outlines the role and expectations of volunteers, which include all volunteers, adhere to all rules and policies and procedures of the CHCDC. After completing all necessary documents the volunteers are assigned to a Volunteer Coordinator. The Volunteer Coordinator assesses the skills and qualities of the volunteer assigning them to the best-fit position, however no formal policy outlines this process. The volunteer then goes through a one-week training. Currently, the CHCDC does not have any evaluation tools or procedures for volunteers, or any volunteer policies outlining opportunities for advancement. The CHCDC does see value in quality volunteers and works hard to either find a paid position for such volunteers or refers them out to other organizations. Given volunteers are very valuable to the organization we advise a formal volunteer manual outlining volunteer policies would help guide, manage, and direct future volunteers. Furthermore, as stated by the *Standards*®, “well-defined volunteer policies signal to volunteers that the volunteer program is well organized and that volunteers are valued” (2009). We have provided a series of best practice volunteer handbooks and policies in the Performance Audit Matrix in Section IV-b.

Section 5: Financial and Legal

Financial Planning and Monitoring

As Standards® states:

Governing Board: The board annually should approve the organization's budget and periodically should assess the organization's financial performance in relation to the budget. As part of the annual budget process, the board should review the percentages of the organization's resources spent on program, administration, and fundraising.

Financial and Legal: A nonprofit should operate in accordance with an annual budget that has been approved by the board of directors.

A nonprofit should create and maintain financial reports on a timely basis that accurately reflect the financial activity of the organization. Internal financial statements should be prepared no less frequently than quarterly, should be provided to the board of directors, and should identify and explain any material variation between actual and budgeted revenues and expenses.

For nonprofits with annual revenue in excess of \$300,000, the accuracy of the financial reports should be audited by a Certified Public Accountant. (2009)

After receipt and review of the CHCDC's financial and legal documents, we found the organization in partial compliance with *Standards*® best practices. The *Standards*® call for an organization to have written financial and legal policies outlining budgeting, internal controls, and reporting (2009). The CHCDC is in compliance in 14 out of the 16 areas of financial controls and legal requirements. Specifically, the CHCDC is not in compliance with written policies for investment and reserve procedures.

In 2011, the CHCDC completely revamped its financial department. The organization reviewed, made recommendations, and implemented improved financial procedures. These written financial practices included budget guidelines, internal control policies, and personnel procedures. Although the CHCDC adopted extensive policies and procedures for its internal controls, the organization does not have written investment or unrestricted current net asset policies.

The CHCDC has followed best practices under the *Standards*® guidelines for financial planning and monitoring by preparing an annual budget, reviewing the organization's balance sheets at least once per quarter, and holding an independent audit each year. Specifically, the CHCDC mirrors the *Standards*® five step budgeting practice: (1) outline the purpose of the budget,

(2) gather data to prepare the budget, (3) forecast expenses and revenues for the year, (4) get the budget approved by the Finance Committee and full Board of Directors, and (5) periodically review the budget (2009).

Further, the CHCDC recognized the need to create cross-collaborative financial policies and procedures between managers, senior staff, and the board. According to the CHCDC’s Budgeting and Financial Reporting Review polices, the managers are deemed, “owners of the organizations financial results” (2011). Duties are shared by the Executive Director, Associate Director, Asset Manager, Property Manager, Resource and Community Development Manager, Program Managers, Accounting Manager, and Office Manager. In addition, duties and oversight is further defined by written policies for receipt of payment, disbursements, and payroll expenses.

Moreover, we reviewed the CHCDC audits for the past five years, including the most recent financial audit published November 2011, and found that the CHCDC follows best practices and current California law. *Standards*® recommends that nonprofit organizations with an excess of \$300,000 hold an independent audit each year (2009), and California law requires nonprofit organization with revenue over \$2 million host an audit by an independent public certified accountant [*Government Code § 12586(e)(1)*].

Financial Policies

As *Standards*® states:

Governing Board: The board should establish policies for effective management of the organization, including financial and, where applicable, personnel policies.

Financial Policies: Organizations should have written financial policies adequate for the size and complexity of their organization governing: (a) investment of assets of the organization; (b) internal control procedures; (c) purchasing practices; and (d) unrestricted current net assets. (2009)

The CHCDC is not in compliance with investment policies. *Standards*® encourages all nonprofit organizations to adopt clearly written investment policies to help board members, staff,

and outside advisors understand the organization's investment goals and the financial risks the organization is willing to take in order to achieve these goals. The CHCDC has several investment properties in City Heights. "CHCDC owns and operates directly or as managing general partner over 50 rental properties providing quality affordable apartment homes to 750 families" (CHCDC Financial Introduction, 2011). The CHCDC's investments are a large part of its revenue and financial portfolio. We recommend that the CHCDC adopt an investment policy. According to *Standards*® (2009), the investment policy should include background and key information about the mission of the organization and the goals of investment, investment objectives including potential risks and returns, guidelines and constraints for how quickly the investments can be turned into liquid assets, the allocation of said assets, and the monitoring procedures. We propose that the CHCDC adopt one of the three *Standards*® Sample Investment Policies (*The Delaplaine Visual Arts Education Center, Sample Investment Policy from the Montana Nonprofit Association, and The Center for Charitable Studies Statistics Operating Reserves Policy Toolkit for Nonprofit Organizations* pp.48-54) in the Performance Audit Matrix, Section V-e.

The second area of partial compliance is regarding a reserves policy. Although the CHCDC has designated unrestricted net assets in its operating budget, balance sheets, and financial reporting, including audits, it has no written policy or procedures for goals. We suggest that the CHCDC implement a written policy for its reserves determining the amount needed to provide a cushion in times of unanticipated losses, changes in financial position, or revenue changes. See the Performance Audit Matrix, Section V-e for two sample policies from *Standards*® and Nonprofits Assistance Fund. The policy from the Nonprofits Assistance Fund is highly suggested for organizations with several reserve accounts, such as the CHCDC.

Legal Requirements

As *Standards*® states:

Legal Compliance and Accountability: Nonprofits must be aware of and comply with all applicable Federal, state, and local laws. This may include, but is not limited to, the following activities: complying with laws and regulations related to fundraising, licensing, financial accountability, document retention and destruction, human resources, lobbying and political advocacy, and taxation.

Nonprofits should periodically conduct an internal review of the organization’s compliance with known existing legal, regulatory and financial reporting requirements and should provide a summary of the results of the review to members of the board of directors. (2009)

The *Standards*® states that all organizations should be aware of and comply with all applicable federal, state, and local laws. These requirements include filing exemption, employment laws, solicitation and fundraising activities, lobbying activities, and other miscellaneous activities. After thorough review of the CHCDC’s legal and regulatory documents and procedures, we found that the organization is in full compliance.

According to *Standards*®, nonprofits should periodically assess the need for insurance coverage and “a decision to forgo general liability insurance coverage or directors and officers liability insurance coverage, shall only be made by the board of directors...” (2009). The CHCDC is in full compliance with general liability coverage and directors and officer’s coverage.

Section 6: Openness

As the *Standards*® states:

Annual Report: Nonprofits should prepare, and make available annually to the public, information about the organization’s mission, program activities, and basic audited (if applicable) financial data. The report should also identify the names of the organization’s board of directors and management staff.

Public access: Nonprofits should provide members of the public who express an interest in the affairs of the organization with a meaningful opportunity to communicate with an appropriate representative of the organization. Non-profits should have at least one staff member who is

responsible for assuring that the organization is complying with both the letter and the spirit of federal state laws that require disclosure of information to members of the public (2009).

The CHCDC last distributed an annual report to its constituents in 2008. The organization is presently working on an annual report for 2011 and this is why the organization is in partial compliance with this performance area. Taking on this task is crucial and accomplishing it, the CHCDC will adhere to the *Standards*® requirement that nonprofit organizations should make information public. In addition, a basic annual report should include five elements: (1) the organization mission statement, (2) a narrative of program activities, (3) basic financial reports, (4) a list of board members, and (5) a list of management staff. “All elements of the annual report must accurately represent the activities of the period covered by the report, ideally a single fiscal year” (Standards for Excellence®, 2009). We encourage the organization to meet these basic standards and have provided Annual Report samples in the Performance Audit Matrix to guide the organization with this task (Section VI-a).

Regarding public access, the website provides public access to the community by allowing individuals to communicate with the leadership team. Community members can also telephone the organization to learn more about it and Ken Grimes, operates as the public liaison for the organization and is currently making a special outreaching effort. The organization conducts different events through its programs that also provide a meaningful opportunity to communicate with the public and over the last couple of months the organization has been more active through its Facebook page and created a quarterly newsletter that is intended to increase communications with the community. All of those include details on how to contact the organization.

It is important to note that it is required by federal law that anyone who asks for the following tax documents, has access to them within 30 days. These documents include: the Form 990 for the three preceding years, the Form 1023 or 1024 (original application for the tax exempt

status), and the IRS's determination letter in response to it (Standards for Excellence®, 2009). More public disclosure items that have to do with fundraising performance will be addressed in the following section.

Although we recognize the organization's efforts to become more open and compile an annual report, the consultants have assessed this performance area as being in partial compliance, until the annual report is distributed. We strongly encourage the organization to engage in a public report distribution annually and to practice more transparency.

Section 7: Fundraising

As *Standards*® states:

Charitable fundraising provides an important source of financial support for the work of most nonprofit organizations. An organization's fundraising program should be maintained on a foundation of truthfulness and responsible stewardship. Its fundraising practices should be consistent with its mission, compatible with its organizational capacity, and respectful of the interests of donors and prospective donors. (2009).

The CHCDC has changed significantly between 2010 and 2011. Specifically, the CHCDC primarily relied on rental income from community properties and government and private contract funding to support its work in developing, supporting, and expanding City Heights. With the advent of challenges to the organization's finances, the CHCDC wishes to create a sustainable fundraising plan with support from other funding sources including individual donations and sponsorships and richer support from corporations, government entities, and grantors (CHCDC Fund Development Plan, 2011).

Fundraising Costs

As *Standards*® states:

Fundraising activities: A nonprofit's fundraising costs should be reasonable overtime. On average, over a 5 year period, a nonprofit should realize revenue from fundraising and other development activities that are at least three times the amount spent on conducting them. Organizations whose

fundraising ratio is less than 3:1 should demonstrate that they are making steady progress toward achieving this goal, or should be able to justify why a 3:1 ratio is not appropriate for the individual organization.

Board Responsibilities: As part of the annual budget process, the board should review the percentages of the organization's resources spent on program, administration, and fundraising. (2009).

The *Standards*® recommends that fundraising activities should generate income at least three times the amount spent, on average, over a five-year period. Based on the CHCDC's last two financial statements (2010 and 2011), the organization is in full compliance with this recommendation. The financial statements for the preceding years did not differentiate between management and fundraising expenses. Nevertheless, we assume the 5-year average is in compliance given the fact that the organization's fundraising has been traditionally based in grant writing and not in fundraising campaigns or events, as stated above. For the year 2011, the CHCDC raised \$614,678 (\$596,322 from grant revenue and \$18,356 from donations) and spent \$89,072 on fundraising (CHCDC Financial Statements, June 30, 2011 and August 31, 2010).

According to *Standards*®, the board should review financial statements annually as part of the annual budget review process. The Board of Directors has been able to fulfill their responsibility to review the percentage amount spent on programs, administration and fundraising for the past two years. The Financial Statements for 2010 and 2011 clearly differentiate those amounts (see Section 2: Governing Body, for more information on board responsibilities).

Fundraising Practices

As *Standards*® states:

Fundraising: Charitable fundraising provides an important source of financial support for the work of most nonprofit organizations. An organization's fundraising program should be maintained on a foundation of truthfulness and responsible stewardship. Its fundraising practices should be

consistent with its mission, compatible with its organizational capacity, and respectful of the interests of donors and prospective donors.

Donor relationships and privacy:

- Nonprofits should respect the privacy of donors and safeguard the confidentiality of information that a donor reasonably would expect to be private.
- Nonprofits should provide donors an opportunity to state that they prefer to remain anonymous and that their name, the amount of their gift, or other information not be publicly released.
- Nonprofits should provide donors an opportunity to have their names removed of any mailing lists, which are sold, rented or exchanged.
- Nonprofits should honor requests by a donor to curtail repeated mailings or telephone solicitations from in-house lists.
- Solicitations should be free from undue influence or excessive pressure, and should be respectful of the needs and interests of the donor or potential donor. (2009)

Fundraisers should be “open, truthful, and clear in their use of solicitations, and should make every effort to avoid misleading donors” (Standards for Excellence®, 2009). The CHCDC follows ethical practices by spending income as it has been designated. Dollars raised for specific programs are designated and spent in accordance with the donor’s wishes. Because the CHCDC has not solicited many funds from individual donors, most of its income has been restricted for specific programming (CHCDC Budget, 2011). Therefore, the organization designates restricted and non-restricted funds appropriately.

Given the organization’s interest to diversify its funding, we are providing the organization with *A Donor Bill of Rights* that was created by the Association of Fundraising Professionals along with other leading associations (Performance Audit Matrix Section VII-e). “Implementing and/or endorsing a *Donor Bill of Rights* in an organization is one way nonprofits can work towards achieving the *Standards® for Excellence*” (2009). Further, we encourage the organization to abide by the following recommendations as it adopts new practices: (1) “Promote voluntary giving in dealing with donors and vendors; and (2) Refrain from any use of coercion in fundraising activities,

including predicating professional advance on response to solicitations” (*Standards for Excellence*®, United Way of America©, 2006).

The CHCDC is in partial compliance with the *Standards*® recommendations for donor relations. The CHCDC does not have a gift acceptance policy, fundraising policy, or any written donor privacy policies and procedures. We understand that this is so, because the organization has never focused its attention in raising funds from independent or individual donors, other than membership fees that comprise less than 3% of the organization’s total income. With a shift of the organization’s fundraising focus and culture, the CHCDC is looking to solicit funds from other revenue sources. This being the case, we strongly recommend the CHCDC to adopt the donor policies stated above.

While developing new fundraising materials and campaigns, we encourage the CHCDC to use the provided *Fundraising Disclosures and Solicitation Checklist*. We have provided several samples of Gift Acceptance Policies and Donor Relation Policies (Section VII-g). In addition to the samples, we have also provided a document defining donor privacy guidelines, as well as an example of a Donor Privacy Policy, for the organization’s review. Most of these policies have been retrieved either from BoardSource or *Standards*® best practices. The samples can also be found in the Performance Audit Matrix, Section VII-f.

Although not required by *Standards*®, the consultants have recognized the organization’s concern for the Board of Directors to be actively involved in fundraising. Therefore, we have provided samples of Board Member Fundraising Policies (Performance Audit Matrix, Section VII-other). We encourage the Board of Directors to adopt a formal policy clarifying their role in fundraising activities. Since the organization is hosting its 30th anniversary event and is looking to

solicit sponsorships, we have provided different samples of Sponsorship and Endorsement Policies they may need (Performance Audit Matrix, Section VII-other).

Employment of Fundraising Personnel and Engagement of Fundraising Consultants

As *Standards*® states:

Fundraising personnel, including both employees and independent consultants, should not be compensated based on a percentage of the amount raised or other commission formula.

When using the services of a paid professional fundraising consultant, organizations should only use the services of professional solicitors and fundraising counsel who are properly registered with applicable regulatory authorities.

Organizations should exercise control over any staff, volunteers, consultants, contractors, other organizations, or business who are known to be soliciting contributions on behalf of the organization. (2009)

As mentioned previously, the CHCDC is creating a new fundraising model that diversifies the organization's fundraising streams. To accomplish this, the CHCDC decided to hire outside experts including a fundraising consultant and event planner to organize the 30th anniversary fundraising event. The *Standards*® states that, "consultants should work on a fixed-fee basis, based on an hourly rate or flat fee set by the fundraiser and contracting organization" (Standards for Excellence®, 2009). The organization followed these guidelines by paying consultants flat fees rather than commission-based rates.

As recommended by *Standards*®, the CHCDC should exercise control over individuals or groups soliciting donations on the groups behalf. Presently, the organization has done its fundraising in-house. However, with their new fundraising strategies, we recommend adopting a Fundraising Agreement when working with outside constituents who are raising money on their behalf. A sample of an agreement is provided in the Performance Audit Matrix, Section VII-i.

Section 8: Public Affairs and Public Policy

As *Standards*® states:

Nonprofits should have a written policy on advocacy defining the process by which the organization determines positions on specific issues.

Nonprofits engaged in promoting public participation in community affairs shall be diligent in assuring that the activities of the organization are strictly nonpartisan (2009).

Advocacy is used as a broad term to refer to “activities that promote a cause” (Libby, 2011) and legislative advocacy are those activities that focus on influencing public policy (Libby, 2011). According to Libby (2011), “legislative advocacy includes lobbying, and also includes other activities critical to influencing public policy that are not as specific (and regulated) as lobbying.”

The CHCDC leadership team understands that the organization has conducted advocacy activities in the past, but does not know if there have been discussions or efforts in the past regarding specific advocacy and legislative advocacy policies. The organization recognizes the importance of advocacy and lobbying in the work they do and are interested in exploring what is needed to ensure they are in compliance with nonprofit regulations. This will be a decision the Board of Directors will need to make.

According to *Standards*® (2009), most nonprofits utilize the “Substantiality Principle” to govern their advocacy activities. There are two problems with using this rule including, 1) the law does not define “substantial” and “influencing legislation” and 2) the lack of “definitive methods for determining if nonprofits’ influencing legislation activities fall within the bounds of insubstantiality” (Standards for Excellence®, 2009). According to the *Standard*® (2009), “if charities are found to exceed this somewhat ambiguous principle, they may risk losing their coveted tax-exempt status. All nonprofits are governed by the Substantiality Principle unless they register to be covered under the 501 (H) Election.”

The second rule, 501 (H) Election, is designed for organizations wanting a clear set of rules to follow for advocacy and legislative advocacy activities. This rule was passed by Congress in 1976 and provides definitions for terms that the “Substantiality Principle” does not cover and includes a sliding scale, which determines how much an organization can spend on lobbying activities. According to the Internal Revenue Service (2000), “by electing the optional sliding scale, an organization can take advantage of specific, narrow definitions of lobbying and clear dollar-based safe harbors that generally permit significant more lobbying than the “no substantial part” rule.” In addition, the *Standards*® (2009) further states, the organization “may spend up to 20% of the first \$500,000 of their annual expenditures on lobbying, 15% of the next \$500,000 on lobbying, and so on, up to a maximum lobbying expenditure of \$1 million.” The Effect of 501 (H) Election on Charity Lobbying Rules table is included in Performance Audit Matrix, Section VIII-a for additional information.

Due to the fact that the “Substantiality Principle” is so ambiguous the consultants recommend the CHCDC apply the 501 (H) Election by submitting the IRS Form 5768 if they decide to conduct advocacy and legislative advocacy activities (Section VIII-a form 5768). In addition, the CHCDC Board of Directors will need to approve an advocacy policy and a process for tracking and monitoring staff conducting advocacy and/or legislative advocacy activities (Section VIII-b). The consultants further recommend staff receive training to ensure a consistent and uniform understanding of advocacy and legislative advocacy.

Nonpartisan

According to the *Standards*®, “any nonprofit that engages in partisan activities risks losing its tax exempt status” (2009). Examples of partisan activities include: displaying any signs at work for political candidates, using organization resources to support a political candidate, and “advocacy

materials used during an election that suggest voting for candidates who support the nonprofit's policy positions" (Standards for Excellence®, 2009). Organizations can participate in efforts to Get Out The Vote (GOTV), forums, and debates, however, at no time can the organization show any favoritism for a particular political candidate (Standards for Excellence®, 2009).

The CHCDC engages and provides services to residents across the community without consideration for political affiliation. It is imperative that the CHCDC be diligent and make sure activities are conducted in a nonpartisan way in order to be in full compliance. As consultants, we recommend the CHCDC board adopt an Advocacy Policy that includes a section on nonpartisan activities (Performance Audit Matrix, Section VIII-b).

Review of Educational Material

According to the *Standards*® (2009), "nonprofits should assure that any educational information provided to the media or distributed to the public is factually accurate and provides sufficient contextual information to be understood." Any false or inaccurate information ultimately hurts the reputation of the CHCDC. The organization distributes a quarterly newsletter and as needed distributes news release to the media. Documents appear to present clear and accurate information, however, in order to ensure staff is following appropriate review and approval processes it is recommended that a policy be implemented that clearly identifies chain of approval. Staff is aware that documents need to go to someone on the leadership team for review and approval prior to distributing, however, this process is not clear. The CHCDC is in partial compliance with review and approval of educational materials and media pieces. The Consultants recommend a review and approval process be identified and a checklist implemented to ensure all materials are approved before released to the public (Performance Audit Matrix, Section VIII-c).

In addition, *Standards*® (2009), states that “many organizations have a logo-use policy that provides detailed instructions on how an organization’s logo may be incorporated into an organization’s documents.” The CHCDC should also consider adopting a copyright policy (Performance Audit Matrix, Section VIII-c). The process and policies should be communicated to staff to ensure they understand the information and can ask questions to get clarification as needed.

Other Disclosures

The CHCDC has been involved in a lawsuit within the past five years. The lawsuit covered a three-year period of time and was settled in court in 2010. The case involved a property owned by CHCDC in partnership with another property management company. The lawsuit had a significant impact on the organization not only in funding, but staff morale as well. This was a very difficult time in the organization, but the Board of Directors and staff are excited to have this behind them and eager to move the organization forward.

Management staff has searched through boxes of old paperwork and has found other legal issues: personnel and workers compensation. The CHCDC management staff is interested in implementing any necessary policies to minimize problems in the future. Management also recalls negative media in the past, but recent coverage has been positive.

Conclusion

As a means to continue to identify and prioritize the organization’s needs, we encourage the CHCDC leadership team and Board of Directors to implement the best practices included in this document to ensure continued success in impacting the City Heights Community.

References

Annual Conflict of Interest Questionnaire for Board Members and Designated Employees.

(2011). Retrieved from: Neighborhood House Association.

Association of Fundraising Professionals. (2011). Donors bill of rights. Retrieved from

<http://www.afpnet.org/>

Becker, B., Jarvinen, J., Park, L. & Wilkes, M. (2009). Words Alive Performance

Audit. University of San Diego. Retrieved from:

<https://www.ideaencore.com/item/performance-audit-words-alive-standards-excellence>

BoardSource. (2006). Confidentiality policies 1-6. Retrieved from

<http://www.boardsource.org/>BoardSource. (2006). Mission statement samples. Retrieved

from <http://www.boardsource.org/>

BoardSource. (2006). Value statement samples. Retrieved from <http://www.boardsource.org/>

BoardSource. (2007). Executive sessions: How to use them regularly and wisely. Retrieved from

http://www.boardsource.org/dl.asp?document_id=555

BoardSource. (2009). Board member fundraising policies 1-7. Retrieved from

<http://www.boardsource.org/>

BoardSource. (2009). Donor relations policies 1-3. Retrieved from <http://www.boardsource.org/>

BoardSource. (2009). Gift acceptance policies 1-8. Retrieved from <http://www.boardsource.org/>

BoardSource. (2009). Government forms 990. Retrieved from

http://www.boardsource.org/dl.asp?document_id=681

BoardSource. (2009). Sponsorship and endorsement policies 1-4. Retrieved from

<http://www.boardsource.org/>

BoardSource. (2011). Board self assessments. Retrieved from

<http://www.boardsource.org/assessments/selfassessments.asp>

Butcher, D., et al. (2009). *The Center for Charitable Studies Statistics Operating Reserves Policy Toolkit for Nonprofit Organization*.

California Association of Nonprofits. (2008). Board assessment tool. Retrieved from <http://www.canonprofits.org/>

The Center for Working Families. (Year unknown). Logic Model.

Charities Review Council. (2011). Donor privacy guidelines. Retrieved from http://www.smartgivers.org/uploads/donor_privacy_guidelines.docx

Charities Review Council. (2011). Donor information security guidelines. Retrieved from http://www.smartgivers.org/uploads/donor_information_security_guidelines.docx

Charities Review Council. (2011). Diversity assessment tool: Part 1 and 2. Retrieved from http://www.smartgivers.org/Model_Documents2.html

Charities Review Council. (2011). Sample fundraising disclosures and individual solicitation and gift receipt checklist. Retrieved from http://www.smartgivers.org/uploads/fundraising_disclosures_and_solicitation_checklist_3.pdf

CompassPoint. (2011). Bylaws. Retrieved from <http://www.compasspoint.org/>

CompassPoint. (2011). Library of Sample Dashboard Indicators. Retrieved from http://www.compasspoint.org/sites/default/files/docs/560_libraryofindicatorsjune09.pdf

Community Development Corporation of Long Island, 2010 Annual Report. Retrieved from <http://www.cdcli.org>

Conflict of Interest Policy. (2011). Retrieved from: Neighborhood House Association.

Connolly, P and York, P. (2002). Evaluating Capacity, Building Efforts for

Deaf Blind Ontario Services, 2010-2011 Annual Report. Retrieved from

<http://www.deafblindontario.com>

Nonprofit Organizations. Vol. 34. No.4. Retrieved from <http://www.tccgrp.com>

Department of Treasury, Internal Revenue Service. (2000, June). Letter to Charity Lobbying in the Public Interest, a Project of Independent Sector. Washington, DC: Miller, J.

Drexel University Human Resource Policies. (2011). Retrieved from:

<Http://www.drexel.edu/hr/policies/index.html-Human>

Evans, M. Course 15: Creating Value in the Nonprofit Sector. Excellence in

Financial Management. Retrieved from: <http://www.exinfm.com>

Engage Center of Excellence. (2008). RightNow Briefing: How to Improve Survey Participation by

Leveraging Best Practices. In *RightNow*. Retrieved 2011, from <ww.rightnow.com>

Family Asset Building Coalition. (Year unknown). Evaluation outcome indicators.

Fenway CDC, 2010 Annual Report. Retrieved from <http://www.fenwaycdc.org>

Free Management Help. (2011). Basic Sample of Board of Directors Meeting

Madison Park Development Corporation, 2008–2009 Annual Report. Retrieved

from <http://www.madison-park.org>

In The Delaplaine Visual Arts Education Center’s Sample Investment Policy. (2002). (as cited in Standards, 2009).

In *Society for Human Resource Management*. (2011). Retrieved from: <www.shrm.org>

Just In Time for foster youth. (2011). Program satisfaction survey.

Libby, P. (2000). Agency evaluation packet. University of San Diego.

Libby, P. (2002, August). Libby’s golden rules for staff evaluation. University of San Diego.

Libby, P. (2005). Personnel recruitment and hiring. University of San Diego.

Libby, P. (2012). *The lobbying strategy handbook: 10 steps to advancing any cause effectively*. Los Angeles: SAGE Publication, Inc.

Minutes. Retrieved from: <http://managementhelp.org/boards/sample-minutes.htm>

Montana Community Development Corporation, 2010 MCDC Annual Report. Retrieved from <http://www.mtcdc.org>

Montana Nonprofit Association. (2008). Sample Investment Policy. Retrieved from: <https://www.ideaencore.com/item/sample-investment-policy>

National Council of Nonprofits. (2011). Board member survey. Retrieved from <http://www.councilofnonprofits.org/sites/default/files/Sample%20Board%20Member%20Survey%20%20samples.pdf>

National Council of Nonprofits. (2011). Individual board member self evaluation. Retrieved from http://www.councilofnonprofits.org/sites/default/files/Individual%20Board%20Member%20Self-Evaluation_0.pdf

National Wildlife Foundation. Volunteer Policies and Procedures (2011). Retrieved from: <http://www.nwf.org/volunteer/pdfs/volhandbook14.pdf>

Nonprofits Assistance Fund. (2010). Sample Operating Reserve Policy. Retrieved from: www.nonprofitsassistancefund.org/%2Fclientuploads/%2Fdirectory/%2Fresources/%2FMultiple_Reserves_Policy_Template

Ocean Discovery Institute. (2011). Fundraising policies and procedures. San Diego, CA.

Ocean Discovery Institute. (2011). Case. San Diego, CA.

The Standards for Excellence Institute®. (2007). *The Standards for Excellence*

Institute: An Ethics and Accountability Code for the Nonprofit Sector®. Baltimore, MD.

The Standards for Excellence Institute®. (2009). *The Standards for Excellence*

Institute: An Ethics and Accountability Code for the Nonprofit Sector®. Baltimore, MD

United Way Worldwide, 2010 Annual Report. Retrieved from

<http://worldwide.unitedway.org>

United Way of San Diego. (2010). Logic model.

Washburn Partners. (2011). Board composition grid. Retrieved from

<http://www.washburnpartners.com/>

W.K. Kellogg Foundation. (1998). Evaluation Handbook.

W.K. Kellogg Foundation. (2004). Logic Model Development Guide. Battle Creek, MI.