Ahead of the Curve Symposium:
Defining, Assessing and Managing Risks at Nonprofits

A Day of Brainstorming for Nonprofit Executives, Board Members and Capacity Builders

AHEAD OF THE CURVE

Steering Committee Members

Association of Nonprofit Specialists — Building Collaboration Capacity and Community

Cause Effective

charitySTRONG — Strengthening Training & Recruitment for Outstanding Nonprofit Governance

CRE Community Resource Exchange

Foundation Center — Knowledge to build on.

Governance Matters — A Subsidiary of NYCON

FMA — Fiscal Strength for Nonprofits

HSC Human Services Council

Lawyers Alliance for New York — Connecting lawyers, nonprofits, and communities

Nonprofit Finance Fund

www.npccny.org NPCC — Nonprofit Coordinating Committee of New York

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FRAMING TABLE #18
Q2: Among the risks we have discussed, which do we prioritize?
TOP 3 PRIORITY AREAS:


Q1: What does risk (both positive and negative) mean for you?
Framing Table #19
TOP 3 PRIORITY AREAS
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Executive Summary

Overview

On September 28, 2016, a consortium of capacity building organizations held a symposium in New York City to "advance [the] collective knowledge of the discipline of risk management" within the nonprofit sector. A cross sector of about 200 people attended, including nonprofit executives, managers and trustees as well as representatives of capacity building organizations, consultants and academics.

Section I: the results

Learning from the Symposium

Highlight from the panels

The panelists collectively emphasized the importance of embracing risk and proactively managing it, linking this to creating healthy, sustainable organizations. The highlights from their remarks are summarized in an addendum to this report and reflected in the key insights below.

> "It is important to remember that there are positive risks as well as negative risks and that nonprofits want to be prepared for both."
>
> — Allison Sesso, Executive Director, Human Services Council

Report backs from the small groups

Overall, the small group responses to the discussion questions were very consistent. These responses are summarized in an addendum to this report and reflected in the key insights below.

Key insights from the day

1. Risk is not all about the "negatives." Positive risks provide opportunities for growth and change and risk management provides a path for achieving a healthy, sustainable organization.

2. Nonprofits have valuable assets to drive the development and implementation of the discipline of risk management. These include innate knowledge of risk, commitment to sustainability, awareness that their operations are risky, at least in certain areas, and skill in implementing new programs and systems, particularly evident in nuanced understanding of how to use communication and culture to operationalize risk management.

3. Nonprofit leaders want support so that they can operationalize risk management. They don't need to be convinced about its value. There was a uniform call for best practices, tools, networks, facilitation and consultants. An information and resource sharing website, like the one being created by the Ahead of the Curve Steering Committee, is needed.

4. The discipline of risk management needs to be built around collaboration and communication within the nonprofit and integration of risk management into the nonprofit's planning and operations.

5. Financial and associated contract risks are a top issue, but not the only issue. Participants also identified other areas of major risk they face, such as governance/leadership, reputation, operational, compliance, quality of services and safety, growth, innovation and external risks.

Next Steps: Moving to Action

The Steering Committee met and agreed to take the following action steps to begin creating a shared framework for the discipline of risk management in New York City:

1. Steering Committee members will use the categories of risk in the Community Resource Exchange Fitness Tool (CREFT) as the framework for risk management, which are: Leadership, Governance

& Strategy; Personnel & Administration; Finance; Compliance & Legal; Programs & Services; and External Environment

2. Community Resource Exchange (CRE) is developing a risk assessment tool known as the Community Resource Exchange Fitness Tool (CREFT). CRE has set the goal to make CREFT available to the nonprofit sector at no-cost and is seeking funding to build it out in an appropriate software platform to accomplish this.

3. The Steering Committee will launch a new website, created under the Ahead of the Curve banner, to make new and existing information, materials and resources about risk management accessible to the nonprofit sector in New York City. The website will be designed to facilitate communication and coordination across the Steering Committee member organizations, including a coordinated calendar highlighting relevant risk management sessions across the network.

4. The Steering Committee will encourage and support member agencies in working collaboratively to raise awareness about risk management in the nonprofit sector and connect nonprofits to resources and tools to integrate risk management into their operations, such as: 1) workshops, roundtables and forums, 2) case studies, sample policies, procedures, templates, checklists and other tools, and 3) one-on-one consulting support, experts and volunteers.

Section II: the symposium process

The Symposium was designed to foster shared learning about the practices in use for risk management and to collaboratively develop a vision for what nonprofits want and need.

The day was divided into four segments, with panel discussions at the beginning of the first three segments and breakout groups for all four segments. These were: Framing Risk Management; Approaching Risk Management; Risk Assessment; and Next Steps: Where do we go from here?

Over 100 participants responded to a nine (9) question evaluation survey and found the conference helpful or very helpful; they particularly liked the breakout discussion groups. 100% of the respondents said they intended to apply things they learned.

With thanks to the nonprofit executives, managers, capacity building staff, consultants and academics who gave generously of their time to plan and participate in the Symposium, the Steering Committee met its original goals as laid out in the planning process:

- There was ample sharing of knowledge and experience about how nonprofits approach risk management today;
- There was a high degree of consensus among the participants about what they want and need in order to expand risk management at their nonprofits; and
- This learning serves as a first step toward creating a discipline of risk management similar to that of strategic planning.

While there is much be done to develop the body of knowledge and practice needed to comprise the discipline of risk management, with the interest and enthusiasm displayed at the Symposium there is every reason to be optimistic about that it can be achieved, particularly with nonprofit executives and managers, Board leaders, capacity building organizations, the philanthropic community and government working together to achieve this goal.

> "Positive risk: Being brave enough to try new things and new methods of doing things; Negative risk: Not planning or budgeting for projects and being surprised by things badly!"
>
> — Small group breakout

Introduction

On September 28, 2016, a consortium of capacity building organizations held a symposium in New York City to "advance [the] collective knowledge of the discipline of risk management" within the nonprofit sector . (For further background on risk management see the Addendum titled "Risk Management, Some Definitions" attached to this report.) Responding to recent calls for more robust risk management practices in the nonprofit sector, particularly in the area of financial, program and contract management, the consortium sought to foster shared learning about the practices in use and to collaboratively develop a vision for what nonprofits want and need.

> "NPCC believes that strong nonprofits change the world. To be strong - to be ahead of the curve - nonprofits must know their current and future position, risks and opportunities, to make smart, nimble and responsive decisions that help forward their mission."
>
> — Sharon Stapel, President and Executive Director, Nonprofit Coordinating Committee of New York

Section I: the results

Learning from the Symposium

Highlights from the panels

The panelists collectively emphasized the importance of embracing risk and proactively managing it, linking this to creating healthy, sustainable organizations. They addressed many different aspects of risk management and provided examples of their approaches. The highlights from their remarks are summarized in the Addendum titled "Highlights from the Panels" attached to this report.

Report backs from the small groups

Overall, responses from the small groups to the discussion questions were very consistent, as reflected in the post-it notes, poster board sheets and report backs made by the groups throughout the day. These responses are summarized in the Addendum titled "In the Participants' Words: Results from the Small Group Discussions" attached to this report. They are also reflected in the section immediately below titled "Key insights from the day."

Key insights from the day

1. Risk is not all about the "negatives." Positive risks provide opportunities for growth and change and risk management provides a path for achieving a healthy, sustainable organization.

   a. Recognizing that risk is often seen in a negative light, which can be a deterrent to action, many called for rethinking and reframing risk and risk management.

   b. The small groups strongly associated positive risk with growth, change and innovation. As one group framed it, positive risk is the "opportunity to make change – and see a big reward."

   c. Risk management - of positive and negative risks - needs to be reframed as creating "organizational health [and] strategic ability" and "elevating organizational representation externally and with staff."

2. Nonprofits have valuable assets to drive the development and implementation of the discipline of risk management

   Many nonprofit leaders have a practical understanding of risk and extensive experience implementing programs and operations; together these provide a solid foundation for developing and implementing the discipline of risk management. They include:

   a. Innate knowledge of risk and experience in addressing it at the micro level.

   b. Deep commitment to sustainability in order to serve their mission.

   c. Awareness that their operations are risky in at

least certain areas, such as fiscal health and leadership/governance.

d. Skill at implementing new programs and systems – particularly evident in nuanced understanding of how to use communication and culture to operationalize the discipline of risk management.

3. Nonprofit leaders want support so that they can operationalize risk management.

   Nonprofit leaders don't need to be convinced about the value of risk management to manage positive and negative risks. They want practical support to expand and operationalize it. (See the Addendum "In the Participants' Words"/Segment 4)

   a. Risk management is not well-defined as a practice area, particularly in comparison to other areas such as budgeting or strategic planning, so support is needed to create the body of knowledge required.

   b. There was a uniform call from the small groups for best practices, tools, networks, facilitation, consultants etc – in order to develop systems and norms, including assistance in identifying, discussing and prioritizing the most difficult risks.

   c. The website being created by the Ahead of the Curve Steering Committee is needed to facilitate communication and share resources, such as tools and resources by FMA (contract evaluation; financial), RoundTable Technology (information security and technology), CRE (comprehensive risk assessment) and Lawyers Alliance (legal risks) .

> "Proactive planning works well in addressing both new risks and entrenched risks."
>
> — Wendy Seligson, Consultant

4. The discipline of risk management needs to be built around collaboration and communication within the nonprofit and integration of risk management into the nonprofit's planning and operations.

   a. Risk management needs to be seen as a team sport, involving staff, board, funding partners and consultants.

   b. Communication is critical; systems of communication need to be clear.

   c. Risk management needs to be integrated into planning and operations for the organization, including, specifically, strategic planning.

   d. These steps help to create the culture and "safe space" necessary for risk management to thrive.

> "Risk management is a "team sport" that involves staff, board, funding partners and consultants on an ongoing basis."
>
> — Small group breakout

5. Financial and associated contract risks are a top issue, but not the only issue.

   Nonprofits want to develop the discipline of risk management in ways that are flexible enough to encompass the big risks that they face. (See the Addendum "In the Participants' Words"/Segment 1)

   a. Across the board, participants prioritized the financial and the associated contract risks identified in the original Human Services Council Commission and SeaChange Oliver Wyman reports.

   b. Participants also identified other areas of major risk they face, such as governance/leadership, reputation, operational, compliance, quality of services and safety, growth, innovation and external risks.

<u>Next Steps: Moving to Action</u>

Following the Symposium, the Steering Committee met and agreed to take the following action steps to begin creating a shared framework for the discipline of risk management in

New York City.

1. Steering Committee members will use the categories of risk in the Community Resource Exchange Fitness Tool (CREFT) as the framework for risk management.
    a. Leadership, Governance & Strategy
    b. Personnel & Administration
    c. Finance
    d. Compliance & Legal
    e. Programs & Services
    f. External Environment
2. Community Resource Exchange (CRE) is developing a risk assessment tool known as the Community Resource Exchange Fitness Tool (CREFT). CRE has set the goal to make CREFT available to the nonprofit sector at no-cost and is seeking funding to build it out in an appropriate software platform to accomplish this.

> "I would encourage nonprofits to own their risks and be proactive and purposeful in managing those risks."
>
> — Katie Leonberger, President & CEO,
> Community Resource Exchange

3. The Steering Committee will launch a new website, created under the Ahead of the Curve banner, to make new and existing information, materials and resources about risk management accessible to the nonprofit sector in New York City. The website will be designed to facilitate communication and coordination across the Steering Committee member organizations, including a coordinated calendar highlighting relevant risk management sessions across the network.
4. The Steering Committee will encourage and support member agencies in working collaboratively to raise awareness about risk management in the nonprofit sector and connect nonprofits to resources and tools to integrate risk management into their operations, such as: 1) workshops, roundtables and forums, 2) case studies, sample policies, procedures, templates, checklists and other tools, and 3) one-on-one consulting support, experts and volunteers.

Section II: the symposium process

Nonprofits deliver programs and services in New York City valued in the billions each year in health and human services, arts and culture, education, youth development and other sectors through a constellation of: local, grassroots organizations; small, medium and large neighborhood and service driven organizations; and very large city-wide multi-service agencies.

Given the size and importance of the nonprofit sector, when FEGS, a venerable $250 million nonprofit, went bankrupt and closed in 2015, along with the closure or merger of several other organizations, there was substantial interest from leaders throughout the nonprofit sector in learning what happened and preventing similarly catastrophic events at their nonprofits and in the sector, as a whole. In the year following, two reports were issued calling for the expansion of risk management. (For further background on the reports, see the Addendum titled "Human Services Council Commission, SeaChange Oliver Wyman and Association of Nonprofit Specialists Reports: Recommendations Regarding Risk Management" attached to this report.)

As the spotlight shone on risk management, leading nonprofit capacity building organizations in New York City (providing information, training, consulting and resource sharing) were actively looking for ways to collaborate to increase the efficiency and effectiveness of their work. They wanted to experiment in creating shared goals, resources and tools that capitalized on their respective expertise and simplified their services to nonprofits. They also hoped to optimize the use of philanthropic resources and amplify their impact on the nonprofit sector. Before too long, this grouped formed a Steering Committee comprised of 19 organizations under the banner, Ahead of the Curve, decided to focus on risk management and host a symposium.

Goals

The Ahead of the Curve Steering Committee began planning for the Symposium with two goals in mind:

1) understanding the current practices that nonprofits used, from the smallest to the largest organization; and

2) identifying what knowledge, norms, common language, resources and tools they needed, especially those to address the financial risks laid out in the SeaChange Oliver Wyman report.

A third goal emerged when John MacIntosh, who leads SeaChange Capital, proposed that the Steering Committee create a discipline of risk management similar to that of strategic planning. He expressed the hope that:

"The nonprofit sector would develop a body of knowledge and practice for risk management similar to the depth of knowledge and practice which exists for strategic planning, such that, in two years, when asked, any nonprofit could say 'this is our approach to risk management' after making an informed choice from among well understood and established approaches."

Methodology

At the suggestion of Keith Timko, Executive Director of the Support Center | Partnership in Philanthropy, the Steering Committee decided to engage the entire sector from the start. They sent out an invitation for "A Day of Brainstorming for Nonprofit Executive, Board Members, and Capacity Builders" on September 28, 2016 as a "first step in the development of a collective approach to risk management in New York City's nonprofit sector".

The Symposium, Defining, Assessing and Managing Risk at Nonprofits, brought together a cross-sector of about two hundred (200) people, including nonprofit executives, managers and trustees from over one hundred (100) nonprofits, as well as representatives of capacity building organizations, consultants and academics. It is worth noting that these leaders self-selected to attend this program and may be more aware of risk management issues and approaches than nonprofit leaders as a whole.

The day was divided into four segments, with panel discussions at the beginning of the first three segments and breakout groups for all four segments. (See the Addendum titled "Symposium Agenda: September 28, 2016" attached to this report for details.) The segments were:

- Framing Risk Management
- Approaching Risk Management
- Risk Assessment
- Next steps: Where do we go from here?

> "My hope is that nonprofit leaders develop a knowledge and practice for risk management similar to the depth of knowledge and practice which exists for strategic planning."
>
> — John MacIntosh, Partner, SeaChange Capital

After considering different alternatives, the Steering Committee adopted the following methodology for the breakout groups: 1) structured questions (with post-it notes and poster board-sized answer sheets to record responses) to guide conversation; 2) small group settings to maximize input from the participants; 3) the use of table facilitators, who volunteered their time for this purpose, to keep the discussions on track; and 4) report backs at each stage to learn from the participants throughout the day. At three of the four breakout sessions, the small groups answered 1-3 questions using post-it notes to capture their ideas, then distilled and prioritized their responses for the report backs. Altogether there were 17 small groups, with approximately 10-12 people in each. The participants chose their tables randomly and generally stayed at them throughout the day.

Prior to the Symposium, on July 13, 2016, the Association of Nonprofit Specialists (a network of organizations, independent consultants, and other specialists providing management assistance to nonprofits) hosted a public forum to

“The Ahead of the Curve Symposium is a first step in the development of a collective approach to risk management in New York City’s nonprofit sector.”

— Keith Timko, Executive Director/CEO, Support Center

help inform the themes and approaches to be explored at the Symposium. This event, The Role of the Consultant in Risk Management: Supporting a Vibrant Nonprofit Landscape, was co-sponsored by the Support Center | Partnership in Philanthropy, Foundation Center and Alliance for Nonprofit Management, and attended by 44 participants. (For further background, see the Addendum titled “Human Services Council Commission, SeaChange Oliver Wyman and Association of Nonprofit Specialists Reports: Recommendations Regarding Risk Management” attached to this report.)

Evaluation

Just over 100 participants responded to a nine (9) question evaluation survey immediately following the symposium and provided detailed comments in response to several of them.

- The participants overwhelmingly found the conference to be helpful or very helpful.
- They particularly liked the breakout discussion groups, reflected in both the rating question and the comments.
- 100% of respondents said that they intended to apply things that the learned and provided specific examples, such as: “risk awareness”; “risk assessment”; “more careful monitoring as a board member”; “risks in all part of board meetings/staff evaluations, etc”; “CRE fitness test”
- They echoed many of the comments above in terms of what they wanted and needed more of.
- When asked how the conference could be improved for the future, in addition to a few comments on the length of the day and other logistical matters, the participants felt that more examples would be useful. One participated said “specific examples of real life stories and how they overcame or failed.”
- Another participant requested “all get on the same page and collaborate – don’t create competing tools – make sure in sync.”

Conclusion

With thanks to the nonprofit executives, managers, capacity building staff, consultants and academics who gave generously of their time to plan and participate in the Symposium, the Steering Committee met its original goals as laid out in the planning process:

- There was ample sharing of knowledge and experience about how nonprofits approach risk management today;
- There was a high degree of consensus among the participants about what they want and need in order to expand risk management at their nonprofits; and
- This learning serves as a first step toward creating a discipline of risk management similar to that of strategic planning.

While there is much be done to develop the body of knowledge and practice needed to comprise the discipline of risk management, with the interest and enthusiasm displayed at the Symposium there is every reason to be optimistic about that it can be achieved, particularly with nonprofit executives and managers, Board leaders, capacity building organizations, the philanthropic community and government working together to achieve this goal.

Addendum: Risk Management, Some Definitions

Risk: the possibility of an unknown or uncertain outcome. Risk is often defined in negative terms, such as the possibility of financial deficits, injury, reputation loss, closure. There are also positive risks, e.g. the possibility of new buildings or programs, better branding, new customers or clients.

Risk assessment: a process of reviewing risk factors to determine a nonprofit's vulnerability to risk and its risk management systems

Risk management:

General definition: an intentional approach to handling risk which involves identifying, evaluating and responding to risks in order to limit adverse consequences and achieve positive gains

Approaches to risk management:

- *Proactive planning*, a systematic approach for identifying and managing risks using an environmental scan to identify risks
- *Formal systems,* a structured approach for identifying and managing risks geared to risks that are well-defined and known, e.g. compliance with government contracts and regulations, staff training, financial management systems
- In*formal*, a reactive approach for identifying and addressing emerging risks

Benefits of risk management:

Addressing negative risks

- Builds organizational capacity by addressing organizational weaknesses and external threats
- Reduces costs and improves operations by addressing inefficiencies and inadequate systems
- Prevents possible crises, harm, loss and liability

Addressing positive risks

- Means to thoughtfully assume positive risks

Areas for risk management

- Business-critical, organization-wide focus (also referred to as enterprise risk management)
- Operational
  - Departmental, e.g. program, financial, administrative
  - Single issue, e.g. transportation, contract billing, etc.

SeaChange Oliver Wyman report: best practices for enterprise level nonprofit risk management[1]

- Governance and Accountability for Risk Management
- Scenario Planning
- Recovery and Program Continuity Planning
- Environmental Scan
- Benchmarking and Self-rating
- Financial Stability Targets

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[1] *Risk Management for Nonprofits* (http://seachangecap.org/wp-content/uploads/2016/03/SeaChange-Oliver-Wyman-Risk-Report.pdf

- Reporting and Disclosure
- Board Composition, Qualifications and Engagement

Addendum: Highlights from the Panelists

Framing Risk Management Panel

Allison Sesso, Human Services Council:
Reiterated the conclusion in the HSC Commission report that nonprofits need to own the risk they face. Appreciated seeing capacity building organizations coming together at the symposium to think through what risk management looks like. Said it was important to remember that there are positive risks as well as negative risks and that nonprofits want to be prepared for both

John MacIntosh, SeaChange Capital Partners
Highlighted the findings in the SeaChange Capital Oliver Wyman report (See Addendum "Human Services Council Commission, SeaChange Oliver Wyman and Association of Nonprofit Specialists Reports: Recommendations Regarding Risk Management"). Risk management is not a luxury. As the report concluded, 10-20% of nonprofits are insolvent; 45% have no margin for error. Very hard to recover once a nonprofit becomes distressed. As described in the report, there are straight forward things nonprofits can do to prevent this.

Katie Leonberger, Community Resource Exchange
Began by saying that when executives, Board and the entire culture of an organization fail to identify, assess and manage risk, this really undermines the sustainability of an organization. This, in turn, poses a big threat to the millions of people served. CRE's goal is to provide support to organizations of all size in identifying and managing their risk. Want to encourage nonprofits to own risk and be proactive and purposeful. Noted that risk management is not an established discipline in the academic setting. Need to equip leaders to do risk management and foster a culture of risk management. Need to look at entire organization, not just financial function. CRE is developing a risk management tool to aid nonprofits in identifying where might be vulnerable so can prioritize risks and develop an appropriate plan.

Approaching Risk Management Panel

Wendy Seligson, consultant, moderator:
Framed three approaches to risk management. The first is the informal, reactive approach which involves spotting risks as they emerge (the on-the-job approach). The second is the formal, systems based approach which works well for defined risks. The third is the proactive planning approach, which involves an environmental scan to identify risks and a process for prioritization. Works well for entrenched risks and new risks.

Christine McMahon, Fedcap
Encouraged rethinking the emotional reaction to risk. If you think of risk as a lack of information and risk management as a process of gathering information and considering various scenarios, that changes everything. Important to look at environmental risks as part of a changing environment and focus on opportunities that emerge. Puts Fedcap's work in the proactive, looking category. Described it as forward looking, like radar pinging which then leads to creating scenarios.

Dave Meade, Southwest Brooklyn Industrial Development Corp
Described his organization as facing the risks of rapid growth through a city contract. They took the informal, reactive approach as the growth began. They also did proactive formal planning for the financial components and benefitted from a finance committee chair who continued to proactively

make suggestions. Looking forward they still need to think through how to further grow the staff and stabilize.

Lane Harwell, Dance/NYC
Brings the arts and culture, small nonprofit and start-up perspective and has embraced an emotional relationship with risk. Focusing on risk from the very beginning contributed to his organization's health, growth and impact. Risk is a calculation between potential loss and potential gain; something small groups might even be able to do more easily because of their size. Small groups can also make risk management part of their decision making, e.g. his organization has financial stability targets, a 6 month cash reserve, scenario planning and does environmental scans. To do it well, it's important to create a culture where everyone participates in it.

Risk Assessment Tools Panel

Elizabeth Perez, Lawyers Alliance for New York
Within the landscape of risk, Lawyers Alliance focuses on legal risks, broken down into six areas: decision-making; governance; contracting; employment practices; program specific risks (which differ depending on the type of program offered and include regulatory compliance and mandatory reporting); and general, operational risks, such as data security. Lawyers Alliance utilizes a risk assessment tool intended as a survey and useful starting point in evaluating and addressing an organization's legal risks. Lawyers Alliance encourages assessing legal risks facing your nonprofit and welcomes feedback on the tool.

Joshua Peskay, RoundTable Technology
RoundTable uses a tool for assessing a variety of organizational technology needs; one of these is information security or cyber-security. The tool asks about policies, procedures, and practices an organization uses to insure the security of their information and the ability to access this information in the event of a disaster. In RoundTable' assessment work with several hundred organizations, our clients tell us consistently that the conversations that occur among IT consultants, staff and/or Board are the most valuable part of the assessment work. Through these, they develop a better understanding of what's in place, where the gaps are and what to prioritize.

Jeff Ballow, CRE
CRE is developing a risk management practice and has created a risk assessment tool as part of this, known as the Community Resource Exchange Fitness Tool (CREFT). The tool covers six (6) areas: leadership, governance and strategy; personnel and administration; finance; compliance and legal; programs and services; and external environment.

CRE's perspective is that, before taking a deep dive into addressing risk, the first step is to take a comprehensive look at the entire organization and identify those areas where there is particular vulnerability to risk. In the CREFT, many questions are in the areas of finance and personnel and administration. In the finance area, they address whether various policies and procedures in place, being used and being tested. The CREFT also includes several risk scenario questions to test an organization's ability to withstand various catastrophic circumstances.

ADDENDUM: IN THE PARTICIPANTS' WORDS: RESULTS FROM THE SMALL GROUP DISCUSSIONS
SEGMENT ONE: FRAMING RISK MANAGEMENT

<table>
<tr><th>Session Questions</th><th>Summary</th><th>In the Words of the Participants: The Post-It Notes</th></tr>
<tr><td>Q1: What does risk (both positive and negative) mean for you?</td><td>The groups pursued varied lines of thought in this first segment. Some focused on approaches while other groups addressed specific areas of risk.</td><td>"risk, positive – opportunity to make change - and see big reward/negative – threats to well-being"
"positive risk: is being brave enough to try new things and new methods of doing things; negative risk: is not planning or budgeting for projects…being surprised by things…badly!"</td></tr>
<tr><td>Q2: Among the risks we have discussed, what do we prioritize?
Q3: Top 3 priority areas?</td><td>1. Fiscal Health
2. Reputation
3. Leadership and governance</td><td>Generalized Risks Prioritized by the Participants
"Internal + external"
"Opportunity/failure"
"Sustainability"
"Tone at the top; culture to embrace risk management as ongoing responsibility (including Board)"
Specific Risks Prioritized by the Participants
"Fiscal health"* (<u>identified at most tables</u>)
"Reputational risk"* (<u>identified at most tables</u>)
"Leadership and governance"*
"Ability to innovate and seize opportunities"
"Growth/scaling"
"KPI/research data management for informed decision making"
"Human capital"
"Staff safety and development"
"Mission driven impact/reputation/brand"
"Insuring quality of services and safety"*
"Liability"
"Understanding government contract. How they work, what do they pay for/what don't they pay for"
"Looking externally"
*identified at a number of tables</td></tr>
</table>

SEGMENT TWO: APPROACHES TO RISK MANAGEMENT

Session Questions	Summary	In the Words of the Participants: The Post-It Notes
Q1: What approaches to risk do you currently use or have you seen other organizations use? Identify top 3 approaches.	1. Incorporating risk management into strategic planning and operations 2. Communicating clearly about roles, responsibilities and action. 3. Various specific, formal systems for managing discrete risks.	*Overall approaches to risk management identified by the participants* • "Risk management is a "team sport" (involve staff, board, funding partners, consultants) ongoing" • "Continuous structured communications (top to bottom; bottom to top)" • "Communication for action and clear roles" • "Planning strategically (short-, mid- and long-term) (<u>identified at most tables</u>)" • "Organizational culture and practice of risk including procedures, policies and culture" • "Agency-wide risk assessment *Examples of specific risk management practices identified by the participants* • "Forecasting financials for 3 years out" • "Focus on balance sheet – profit and loss by program-benchmarking" • "Cash forecasts" • "Grid of risks/threat/opportunity – planning to assess current conditions" • "Scenario planning with staff and board" • "Building/constructing board of directors/trustees that have experience and background in managing risk" • "Establish written policies to formalize things; to get board to think about things" • "Have a RM plan (agency wide)"

Q2: How do we build a culture of risk management? Identify top 3 ways you have seen or believe that organizations can build a culture of risk management.	1. Communication
	2. Transparency
	3. Approach as a shared responsibility of board, execs and staff
		Ways to build a culture of risk management identified by the participants
		• "Start with leadership (Board, Sr Staff) taking ownership and creating a safe space"
		• "Transparency + disclosure"
		• "Communication at all levels of staff and board (<u>identified at most tables</u>)
		  ○ Articulate tolerance and philosophy for risk
		  ○ Open, facilitated communication with all constituents"
		• "Build risk awareness to assure shared responsibility"
		• "Emphasis that RM and program are connected in the long run"

SEGMENT THREE: RISK ASSESSMENT TOOLS

CRE introduced the comprehensive assessment tool it is developing, which identifies six categories of nonprofit organizational risk:

- Leadership, Governance & Strategy
- Personnel & Administration
- Finance
- Compliance & Legal
- Programs & Services
- External Environment

This tool is designed to help nonprofit leaders identify risk vulnerabilities to their organizations as a first step toward managing or mitigating them. It is tentatively named the CRE Fitness Test (CREFT).

The participants were asked to respond to 12 sample questions from the CREFT (covering two risk management practices in each of the six areas) and display their answers on poster-board, with answer choices that ranged from Always (green) to Never (deep pink). (See Addendum labeled "CRE Fitness Test (CREFT) Exercise").

Session Questions	Summary	In the Words of the Participants: The Post-It Notes
The participants responded to 12 sample questions from the CREFT then were asked to discuss their experience using the tool and their observations about the responses from the others in the room.	This segment demonstrated the participant's willingness to rate risks and share that information in a public setting. It also generated discussion around dissemination of best practices around risk and instruction and process for risk review.	The responses to the 12 questions were distributed somewhat evenly across "always", "often" and "sometimes" for most of the questions. In two cases, the questions relating to cybersecurity and internal fraud investigations, approximately half responded "never", highlighting the issue of prioritization: are these areas that need more attention across the sector or do the responses reflect the relatively low risk of significant problems in the areas identified?

SEGMENT FOUR: NEXT STEPS: WHERE DO WE GO FROM HERE?

<table>
<tr><th>Session Questions</th><th>Responses</th><th>In the Words of the Participants: The Post-It Notes</th></tr>
<tr>
<td>Q1: What support do you need around risk management? Identify top 3 areas for support.</td>
<td>Led by Zohra Zori of the Foundation Center and Tiloma Jayasinghe of NPCC (who guided the small group process throughout the day) the small groups identified:

Education on risk management
Opportunities to share norms, best practices, tools and practical experiences
Implementation support, including ‘money, best practices, case studies and tools’.
</td>
<td>Next steps

“Education on RM”

“Information for benchmarking, templates and case studies”
“Risk assessment monitoring and mitigation tools”
“Sample policies & tools, access to expertise & best practices”
“Consistent checklist/training across capacity builders for organizations and Boards”
“RM navigation tool (what lives where? Who does what?)”
“Guidelines and tip sheets for lay and professional leaders on how to integrate RM into operations”

“Sharing best practices and tools and sample policies and templates”

“Roundtables and networking opportunities”
“Warehouse for resource sharing (RM community)”
“Easy to access resources and tools”
“List of places, people and resources to support areas and needs – ideally FREE”

“Support (money, best practices, case studies, tools) for best practices implementation”

“Support for identifying and implementing best practice risk mitigation strategies”
“Accepted sector-wide standards”
“Financial resources for outside consultants”

Further specific suggestions

“Training so all NP develop common vocabulary; Board training on their responsibilities; Train the trainer (i.e. compliance officer)”
“Coaching and leadership develop”
“Safe space for staff to approach board”
“Decision-making tool for new opportunities (cost benefit)”
“Correct (evaluation) incentives – aligned with risk philosophy”
“Advocacy for full cost funding by government”
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Addendum: Human Services Council Commission, SeaChange Oliver Wyman and Association of Nonprofit Specialists Reports: Recommendations Regarding Risk Management

Catalyzed by the bankruptcy and closing of FEGS in 2015, the Human Services Council (HSC), dedicated to strengthening the New York nonprofit human services industry, formed the "Commission to Examine Nonprofit Human Services Organization Closures" to examine what went wrong. Led by Gordon J. Campell, a former senior government and nonprofit official, the Commission consisted of representatives of 32 nonprofit, capacity building, philanthropic, and academic organizations and institutions who worked through five (5) committees to identify the key factors involved. The committees were divided into the following areas: Financial Conditions; Infrastructure; Leadership and Management; Oversight; Relationship between Nonprofits and Government Funders.

In February 2016, the Commission issued a seminal report, *New York Nonprofits in the Aftermath of FEGS: A Call to Action* (http://www.humanservicescouncil.org/Commission_on_Nonprofit Closures.php). The report identified three problems, with the third focused on risk management by nonprofits.

> "Problem #3. There is a lack of adequate risk assessment in the sector. Providers must accept responsibility for aggressively identifying, assessing, and addressing risks to their fiscal health and put in place the checks and balances needed to protect themselves and the people they serve.

The two other problem areas were: 1) inadequate consultation by government with the nonprofit sector when developing new programs and 2) government contracts and the philanthropic grants that rarely covered operating costs and often entailed late payment.

To address the problem of lack of adequate risk management by the nonprofit sector, the Commission recommended that:

- Providers must implement financial and programmatic reporting systems that enable them to identify and quantify the financial impact of changes in the operating environment. Private and government funders must underwrite the development of robust financial and performance monitoring systems necessary for long-term sustainability and program quality.
- Provider boards, in conjunction with staff, must be engaged in risk assessment and implement financial and programmatic reporting systems that enable them to better predict, quantify, understand and respond appropriately to financial, operational and administrative risks. Private and government funders should help build their capacity to do so by facilitating access by nonprofit staff and board members to professional development, technical assistance and coaching."
- The human services sector must establish an RFP rating system and government agency performance survey to illuminate the risks associated with individual government proposals and highlight problematic government agency policies and practices. Providers can start to level the procurement field by collaborating to evaluate government performance.

Shortly after the HSC report, a second report was issued that called on nonprofit trustees to change the "status quo" around risk management. Developed by SeaChange Capital Partners, a merchant bank serving the nonprofit sector, and Oliver Wyman, a global management consulting firm known for its work on risk measurement and management, the report, entitled *Risk Management for Nonprofits* (http://seachangecap.org/wp-content/uploads/2016/03/SeaChange-Oliver-Wyman-Risk-Report.pdf) laid out a number of practical recommendations and stated the belief that "the sector can make dramatic improvements in risk management over the next few years".

Examining financial data from New York City nonprofits, the SeaChange Oliver Wyman report made a substantial case for the need for risk management, particularly financial risk management. (See the financial data in the Appendix to the report). To quote from the report: "[u]nfortunately, very few nonprofits have processes in place to address …issues of financial risk management. However, our research suggests that this can and must change

- New York City nonprofits are fragile: 10% are insolvent (18% in health and human services); as many as 40% have virtually no cash reserves (i.e., margin for error); and over 40% have lost money over the last three years. We believe that less than 30% are financially strong. Yet many trustees do not understand the financial condition of their organization or how it compares to its peers.
- Distressed nonprofits have very limited ways to recover, so trustees must do all they can to reduce the risk that their organizations become distressed in the first place. And they must take prompt, decisive action if it does.
- Practices such as scenario planning, benchmarking and self-rating, and setting explicit financial stability targets, can improve risk management. A few organizations already do these things. Most do not."

In July 2016, the Association of Nonprofit Specialists (a network of organizations, independent consultants, and other specialists providing management assistance to nonprofits) hosted a public forum to shine light on the dynamics of risk management and to support efforts to collectively find ways to understand and mitigate risks, including the symposium planned for September. This event, *The Role of the Consultant in Risk Management: Supporting a Vibrant Nonprofit Landscape,* was co-sponsored by the Support Center I Partnership in Philanthropy, Foundation Center and Alliance for Nonprofit Management, and attended by 44 participants, primarily independent consultants and nonprofit practitioners. (See http://npspecialists.org/wp-content/uploads/Proceedings-of-The-Role-of-the-Consultant-in-Risk-Management.pdf)

The session identified the following trends and opportunities:

- Overall heightened and complex meaning of risk in today's world
- Emerging compliance and regulatory risks in a number of areas
- Surge in funder focus on measurable outcomes, i.e., metric and data requirements, with limited capacity and support
- Risk in demand for holistic consulting services, which present risks as well as opportunities to be generalists and/or collaborate
- Need/opportunity for collective advocacy and creation of a risk management culture and resources, with cross-sector collaboration from funders to capacity builders

Ahead of the Curve Symposium
Sample Questions from the CRE Fitness Test (CREFT)

Please answer the questions to the best of your knowledge by <u>circling</u> a response below each question.

Compliance

1. Does the organization conduct internal investigations for fraud, malfeasance, client incidents, and staff grievances?

Always	Often	Sometimes	Rarely	Never

2. Does the organization monitor government regulations and legislation and implement relevant changes?

Always	Often	Sometimes	Rarely	Never

External Environment

3. Does the organization monitor its reputation online and in other media?

Always	Often	Sometimes	Rarely	Never

4. Does the organization identify emerging or changing community and/or client needs and use a process for responding to them?

Always	Often	Sometimes	Rarely	Never

Finance

5. Does the organization develop (and then have the board approve) an annual operating budget that includes all revenue sources and expenses (including program)?

Always	Often	Sometimes	Rarely	Never

6. Does the organization have a written policy for authorized staff and management approval levels for petty cash, credit cards, check signing, and use of airline and/or credit card points?

Always	Often	Sometimes	Rarely	Never

Leadership, Strategy, and Governance

7. Does the board conduct an annual performance evaluation and compensation review of the executive director?

Always	Often	Sometimes	Rarely	Never

8. Does the organization provide the Board with budget variance (budget vs. actual) reports at Board meetings?

Always	Often	Sometimes	Rarely	Never

Personnel and Administration

9. Does the organization comply with employment and fair labor standards (examples: Family Medical Leave Act, classification of exempt and non-exempt employees, and use of independent contractors)?

Always	Often	Sometimes	Rarely	Never

10. Does the organization maintain appropriate cyber security safeguards?

Always	Often	Sometimes	Rarely	Never

Program and Services

11. Does the organization formally evaluate its programs and use results to improve programs, policies, and practices?

Always	Often	Sometimes	Rarely	Never

12. Does the organization ensure programs and services are fully subscribed by tracking attendance, utilization, and waiting lists?

Always	Often	Sometimes	Rarely	Never

Thank you for your responses!

Interested in taking the full version of CREFT as part of CRE's testing phase of the development of this tool? Please contact us at CREFT@crenyc.org and a CRE team member will contact you to set up a testing session.

AHEAD OF THE CURVE

AGENDA

Wednesday, September 28, 2016
9AM – 3PM

9:00AM – 9:20AM **Welcome**
Speakers:
- Sharon Stapel, Nonprofit Coordinating Committee of NY (NPCC)
- Keith Timko, Support Center

9:20AM – 9:40AM **Framing Risk Management Panel**
Speakers:
- Allison Sesso, Human Services Council (HSC)
- John MacIntosh, SeaChange Capital Partners
- Katie Leonberger, Community Resource Exchange (CRE)

9:40AM – 10:25AM **Framing Risk Management Breakouts**
Facilitators:
- Tiloma Jayasinghe, NPCC
- Zohra Zori, Foundation Center

Small group discussions

10:25AM – 10:40AM **Framing Risk Management Report Backs**
Facilitators:
- Sharon Stapel, NPCC
- Keith Timko, Support Center

Sharing from group discussions

10:40AM – 11:00AM **Break**

11:00AM – 11:30AM **Approaching Risk Management Panel**
Moderator:
- Wendy Seligson, Wendy Seligson Consulting

Speakers:
- Lane Harwell, Dance/NYC
- Christine McMahon, Fedcap
- Dave Meade, Southwest Brooklyn Industrial Development Corp.

11:30AM – 12:00PM **Approaching Risk Management Breakouts**
Facilitators:
- Tiloma Jayasinghe, NPCC
- Zohra Zori, Foundation Center

Small group discussions

12:00PM – 12:15PM **Approaching Risk Management Report Backs**
Facilitators:
- Sharon Stapel, NPCC
- Keith Timko, Support Center

Sharing from group discussions

12:15PM – 1:00PM	**Lunch**
1:00PM -1:15PM	**Risk Assessment Tools Panel** Speakers: • Jeff Ballow, CRE • Elizabeth Perez, Lawyers Alliance for New York • Joshua Peskay, RoundTable Technology
1:15PM – 2:00PM	**Risk Assessment Tools Breakouts** Facilitators: • Tiloma Jayasinghe, NPCC • Zohra Zori, Foundation Center Small group discussions
2:00PM – 2:15PM	**Risk Assessment Tools Report Backs** Facilitators: • Jeff Ballow, CRE • Elizabeth Perez, Lawyers Alliance for New York • Joshua Peskay, RoundTable Technology Sharing from group discussions
2:15PM – 2:20PM	**Where do we go from here?** Speakers: • Tiloma Jayasinghe, NPCC • Zohra Zori, Foundation Center
2:20PM – 2:40PM	**Next Steps Breakouts** Facilitators: • Tiloma Jayasinghe, NPCC • Zohra Zori, Foundation Center Small group discussions
2:40PM – 2:50PM	**Next Steps Report Backs** Facilitators: • Sharon Stapel, NPCC • Keith Timko, Support Center Sharing from group discussions
2:50PM – 3:00PM	**Thank You & Goodbye** Speaker: • Keith Timko, Support Center