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Nonprofit Strategies

SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

WHAT TO DO IN AN ETHICAL QUANDARY?

Barry VanderKelen

The following ethical situation is fictional. How would you proceed?

Janet Smith left her CPA practice at an accounting firm and was excited to become chief financial officer at Stages, one of the area's most respected **nonprofits**. The previous CFO had worked at the organization for many years but recently moved to the Midwest to be closer to family. Stages uses theatrical productions as psychological and occupational therapy for marginalized, disabled and at-risk members of the general community. Its reputation is strong and it has a wide following. Shortly after joining the staff, however, Smith realized that the financial statements were not accurate. In fact, there hadn't been an audit of the statements in two years. All of the representations in the annual report, reports to funders and filings with the IRS had errors. Documentation was missing. What records existed were in disarray. As she tried to clean up the files, it became clear that the management letter of an audit would call for extensive revisions to the accounting system and be critical of the board of director's oversight.

Stages had revenue of $2.1 million. It organized three major productions in a local theater each year and conducted regular acting therapy sessions in area schools and hospitals.

The funding came primarily from government grants and contracts. Wealthy families in the area gave generously during the annual fundraising campaign.

The next meeting of the organization's board was fast approaching. A chief financial officer report was required at each meeting. Smith hadn't been able to analyze completely the financial condition of the organization but needed to produce reports for the meeting. It would be her first meeting with the board and her first financial report. Smith asked to meet with the executive director, Mike Jones. He was well-known in the community and served on statewide and professional committees. If he wasn't at one of those meetings, he was schmoozing donors. Jones left the day-to-day operations of the various parts of the organization to the respective division heads.

"Mike, I have some serious concerns about our finances," Smith said. "The records are not clear, and it seems some of the reports we've been distributing are incorrect." Smith continued and said that she would not be able to produce accurate reports in time for the board meeting. She felt as if she hadn't had time to build her credibility with the board and that they might discount her concerns. The problems seemed so deep, however, that she felt the board needed to be informed.

Jones acted surprised. "Our board raises a lot of money for us, and they trust us. Is there any way we can make gradual changes to our reports or even wait until the beginning of next fiscal year to make changes?" he asked.

Is it proper not to share important information with the board? Who has ultimate responsibility for financial disclosure when the chief executive officer and the chief financial officer disagree? What duties does Smith have to the organization? To herself?

If you'd like to share your thoughts, please comment at:

www.sanluisobispo.com.I will share the responses in a follow-up column.

Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-weekly column to help strengthen nonprofit organizations in the community. Each column is reprinted here as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@sloccf.org.