

Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

NEW CFO SHOULD BRING SUSPECT FINANCES TO LIGHT

Barry VanderKelen

Today's column addresses the ethical quandary posed in my last column. Janet Smith, recently hired as chief financial officer of Stages, a fictional local nonprofit, discovered the organization's financial statements were incorrect. She told executive director Mike Jones that because of the inconsistencies she is unable to produce accurate reports for the next board of directors meeting. Jones asked her to introduce corrections gradually in order to maintain the board's trust in the organization's operations. How should Smith proceed?

I thank the many readers who contacted me to share their comments. Interestingly, everyone said Smith must take some action, although opinions differed on what specific action she should take. Our discussions raised some interesting points. Smith has three obligations in this situation: first to her profession, second to the organization, and third to herself. She must attempt to fulfill all three obligations, which presents a dilemma. First, Smith must adhere to the rules and regulations of her profession, including producing correct reports. She has not yet been able to discover the reasons for the inaccurate reports of the past two years. If she knowingly

submits incorrect financial statements to the board and later discovers evidence of fraud, she could be accused also of taking part in a cover-up.

As an officer of Stages, she is responsible for the welfare of the organization. Like it or not, she has an obligation to report the truth as she knows it to her boss. As executive director, Jones is the official interface between the staff and the board at Stages. Smith must prepare Jones to deliver the facts to the board.

Finally, as a professional, Smith cannot just walk away upon discovering a problem. She must try to improve the organization in any way she can including uncovering and addressing financial problems. However, if she presents a problem to her employer, and he refuses to take the information to the board, Smith must consider resigning from Stages. If the organization cannot support her personal and professional values, Stages is not the right organization for her. Another consideration in this scenario is that Stages is not compliant with state law. The California Nonprofit Integrity Act of 2004 requires nonprofits with revenue

greater than \$ 2 million to have an Audit Committee and file audited financial statements with the state Attorney General's Office annually. Taking state law and professional obligations into consideration, many readers concluded that Smith must reveal what she knows. Katrin Colamarino, a nonprofit consultant based in Atascadero, applauds Smith for trying to do the right thing.

" Her instincts are correct," Colamarino observes. " Smith and Jones must inform the board (about the financial inconsistencies)."

Before a full board meeting, Jones should alert the chairman or chairwoman of the board about the situation. Also, because more facts about the financial situation need to be revealed, Jones should have a plan for continued discovery and communication.

When the board of directors meets to address the matter, they will want to include improved financial oversight in the resolution plan and force Jones to be more engaged with the daily operations of Stages. An organization that addresses problems upon initial discovery proves that it deserves the trust and support of its constituents.

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-

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