



*A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Congress for Community Economic Development, the National Council of Nonprofit Associations, and Theatre Communications Group*

## COMMUNIQUÉ No. 4

# Nonprofit Governance and Accountability

**Lester M. Salamon and Stephanie L. Geller**  
**Johns Hopkins University**

### EXECUTIVE SUMMARY

Responding to concerns about nonprofit governance and accountability surfaced in a discussion draft<sup>1</sup> issued by the Senate Finance Committee, the Johns Hopkins Nonprofit Listening Post Project conducted a survey, or Sounding, of its nationwide sample of nonprofit organizations in five key fields (children and family services, elderly housing and services, community and economic development, theaters, and museums) to examine the governance and accountability practices of the nation's nonprofit organizations.

Key findings from this survey included the following:

1) **Board roles.** The boards of overwhelming majorities (85-90 percent) of the nonprofit organizations surveyed are highly or significantly involved in the key strategic oversight functions that nonprofit boards are expected to perform. These include:

- Setting organizational missions (93 percent);
- Setting the chief executive's compensation (88 percent);
- Establishing and reviewing organizational budgets and finances (87 percent);
- Setting organizational objectives (87 percent);
- Reviewing auditing and accounting policies and practices (83 percent); and

- Approving significant financial transactions (81 percent).

2) **Financial disclosure.** The overwhelming majority (97 percent) of sampled organizations have undergone an independent audit within the past two years and comparable proportions (95 percent) regularly distribute their financial reports to their boards.

3) **Ethics protections.** The overwhelming majority of responding organizations also already have other policies and procedures in place to promote accountability and ethical behavior. This includes:

- Internal controls on finances and financial accounting (98 percent);
- Records retention policies (84 percent);
- Conflict of interest policies (83 percent);
- Travel expense policies (81 percent);
- Compliance programs for regulation (81 percent); and
- Codes of ethics for board and staff (73 percent).

Even among smaller organizations, a majority have such policies in place.

4) **Best-practice standards**

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- Nearly two-thirds of the organizations surveyed already take part in best-practice accreditation programs, and nearly 60 percent of these participate in more than one such program.
  - Of those organizations that do not participate in formal best-practice accreditation programs, most report following an internally developed set of standards.
  - Internal factors such as a desire to promote organizational excellence and improve transparency are more important in explaining adherence to best-practice accreditation standards than external pressures from funders, clients, or the press.

#### 5) **Organizational changes**

- Nearly one in three organizations (29 percent) reported making some material change in their structure, programs, funding, or mission over the previous two years.
- However, most of these (54 percent) reported notifying the Internal Revenue Service of this change. And those that did not report typically experienced less significant changes (e.g., changes in funding sources).

#### 6) **Nonprofit awareness**

- Most nonprofit boards (80 percent) are at least “somewhat knowledgeable” about nonprofit laws at both federal and state levels, and two-thirds reported having discussed the federal Sarbanes-Oxley law.
- Only 36 percent of the organizations reported having held at least brief board discussions of the Senate Finance Committee staff proposals for increased regulation of nonprofit governance.

The full Communiqué on Nonprofit Governance and Accountability is available for downloading at: [www.jhu.edu/listeningpost](http://www.jhu.edu/listeningpost)

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<sup>1</sup>U.S. Senate Finance Committee, Staff Discussion Draft (June 22, 2004) (<http://finance.senate.gov/hearings/testimony/2004test/062204stfdis.pdf>).



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### BACKGROUND

In the discussion draft<sup>1</sup> it issued in June of 2004, the staff of the U.S. Senate Finance Committee suggested a variety of legislative and regulatory measures to correct perceived problems in the governance and performance of U.S. charitable institutions.

Underlying the Finance Committee's concerns was a conviction that many nonprofit organizations lack effective financial and programmatic accountability procedures and that nonprofit boards are not adequately performing their oversight responsibilities. As Senator Charles Grassley, Chairman of the Senate Finance Committee, explained in justifying the Committee's concerns, "[o]ften problems at ...charities can be traced back to poor governance."<sup>2</sup> To correct this, the Finance Committee staff advanced proposals to require nonprofit boards to "establish basic organizational and management policies," to "establish, review, and approve program objectives and performance measures," to approve compensation for all management positions, to establish conflict of interest policies, and generally to monitor organizational finances and performance.<sup>3</sup>

While instances of poor governance undoubtedly exist among the nation's charities, however, systematic evidence on the governance practices of nonprofit organizations and on their adherence to basic conflict of interest and other ethical standards has long been unavailable. A recent exhaustive bibliography on nonprofit governance thus found enormous amounts of prescriptive literature about what boards *should* be doing, but precious little empirical information about what they actually *are* doing.<sup>4</sup> This has made it difficult to assess the need for

the kinds of changes that the Senate Finance Committee staff report has suggested.

To overcome this problem, the Johns Hopkins Listening Post Project took a "Sounding" of its nationwide sample of nonprofit organizations in five key fields (children and family services, community and economic development, elderly housing and services, museums, and theaters) in the Spring of 2005 to learn about the governance and accountability practices that these organizations are actually using.<sup>5</sup> More specifically, the survey, or Sounding, focused on six key areas of nonprofit operations: (1) transparency and financial accountability, (2) board roles and responsibilities, (3) conflict of interest and related ethics protections, (4) adherence to "best practice" standards, (5) changes in organizational structure and mission, and (6) board awareness.

A preliminary version of this Communiqué reported our findings on the first of these topics relating to nonprofit financial disclosure practices. The present Communiqué combines these results with those for the other five topics. The report draws chiefly on the responses of a set of organizations affiliated with one of the five nonprofit umbrella organizations that are partners in this project. A total of 443 such organizations were surveyed, and 47 percent, or 207, responded. In addition, however, we also compare these results to those for a control group of 162 randomly selected unaffiliated organizations in similar fields that were also surveyed. Of these, 25 percent, or 40 organizations, responded.

### I. Board Roles and Responsibilities

Nonprofit boards are the key to nonprofit governance. To

the extent that problems exist with the governance and accountability of U.S. nonprofits, therefore, the fault must lie ultimately with the boards and how they carry out, or fail to carry out, their responsibilities.

But the definition of what constitutes “good governance” on the part of nonprofit boards is far from settled. Much of the literature endorses what might be called a “strategic,” or “engaged but not meddling” board model, a model that calls on boards to focus on the basic missions and goals of the organization, to hold the top management responsible for the achievement of the organization’s basic mission, to pay close attention to the organization’s financial health, but not to second-guess operational decisions.<sup>7</sup> A central premise of the Senate Finance Committee’s staff report is that a significant portion of nonprofit boards are failing to perform even these basic responsibilities. What is more, however, the Finance Committee staff appears to favor mandating by law a more involved “managerial board” model in which the board involves itself more actively in management functions, such as setting the salary of all managerial staff, reviewing internal organizational practices, and setting and monitoring performance at the program level. How well do these ideas square with current board practice?

**Basic Board Functions: The Strategic Model Confirmed**

To answer this question, we posed a series of questions about board functions and responsibilities to the executive directors of our Listening Post organizations. The results suggest a pattern of board operations that is far closer to the recommended ideal than the Finance Committee recommendations would suggest. In particular:

- **Most boards are already performing key strategic functions.** As shown in *Figure 1*, the overwhelming majority of boards of our responding organizations are already highly or significantly involved in the key strategic functions that organizations like BoardSource recommend for them. This includes:

- Setting organizational missions (93 percent);
- Setting the chief executive’s compensation (88 percent);
- Establishing and reviewing organizational budgets and financial objectives (87 percent);
- Setting organizational objectives (87 percent);

- Reviewing auditing and accounting policies and practices (83 percent); and
- Approving significant financial transactions (81 percent).

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***“It is important for the general public to know that the majority of nonprofit organizations operate in a business-like manner and are excellent stewards of their contributions and trust.”***

–Executive Director of a children and family service organization

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**Figure 1  
Functions of Nonprofit Boards**



Percent of organizations in which boards are highly or significantly involved

n=204  
SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

**Figure 2**  
**Functions Where More Board Involvement is Needed**



n=198

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

- **Expanded board involvement in key strategic functions not considered necessary.** Reflecting this, relatively few nonprofit managers expressed a need to expand board involvement in the basic strategic functions, such as setting organizational missions and goals, reviewing organizational budgets, or reviewing auditing and accounting standards (see *Figure 2*).

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*“Our board already takes its stewardship responsibilities very seriously, has consistently sought to be aware of—and comply with—its legal obligations, and seeks voluntarily to benchmark against industry best practices because of its commitment to excellence...”*

—Executive Director of a community development organization

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### More Limited Commitment to the Managerial Model

- **Less extensive board involvement in managerial functions.** While the boards of most responding organizations appear to be performing the basic strategic functions of board governance, substantially smaller proportions are highly or significantly involved in the more detailed managerial tasks that the Senate Finance Committee staff has also recommended that boards be required by law to perform. Thus, for example, half or fewer of the boards were reported to be

**Table 1: Functions Considered Not Appropriate for Boards**

Function	Percent of Orgs.
Setting program objectives	29.9%
Setting compensation other than Executive Director	29.9%
Setting program performance measures	24.0%
Setting basic organizational and management policies	22.1%
Marketing	18.1%

n=200

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

highly or significantly involved in setting management policies (50 percent), reviewing program objectives (42 percent), setting program performance measures (36 percent), or setting compensation levels for management positions other than the CEO (29 percent).

- **Doubts about managerial model.** From the evidence at hand, this is not an accident. Rather, it reflects the judgment of at least some organizational executives that board involvement in the details of organizational management beyond reviewing the budget and setting and reviewing strategic objectives is inappropriate and unrealistic (see *Table 1*).
- **Program performance measures.** Responding nonprofit executives were particularly concerned about the Senate Finance Committee’s staff proposal to require boards to establish, review, and approve program—as opposed to organizational—objectives and performance measures and to report the results on their Form 990 filings. Sixty-nine percent of responding organizations opposed this proposal (see *Table 2*). For most of them (82 percent), this seemed an inappropriate use of the Form 990. Many others expressed concern that such performance data are too subjective (67 percent), that their organizations operate too many programs to make such reporting feasible (48 percent), that boards would have considerable trouble evaluating such information (41 percent), and that deriving these measures is too costly or difficult (36 percent). Only 5 percent of the organizations felt that their boards needed to expand their involvement in this function.

As noted above, nonprofit managers have a far different attitude toward board involvement in setting broad *organizational* objectives. In fact, nearly 90 percent of the boards are highly or significantly involved in this

function. The objection is to extending such involvement to the program level and reporting the results on the Form 990.

**Table 2: Nonprofit Attitudes Toward Proposed Expansion of Board Role in Program Performance Measurement**

Function	Percent of Orgs.
Oppose proposed expansion (n=197)	69.0%
Support proposed expansion	10.0%
Don't know	21.0%
Reasons for opposition (n=136):	
Inappropriate use of Form 990	81.6%
Information too subjective	66.9%
Too many different programs	47.8%
Too hard to derive measures	36.0%

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

### Functions Where Increased Board Involvement Needed

In a few areas, chief executives did identify a need to increase board involvement (see *Figure 2*).

- **Fundraising.** Although 70 percent of the organizations reported that their boards were highly or significantly involved in fundraising, a third of the chief executives indicated they would welcome increased board involvement in this function.
- **Advocacy.** Only 43 percent of the organizations indicated that their boards were highly or significantly involved in advocacy efforts, well below the share involved in fundraising or other strategic functions. While the current level of board involvement in advocacy was accepted by most organization executives, over a quarter (28 percent) of them indicated they would like to see more board involvement in this area.

### Board Functions Vary Little by Field and Size

Most of these findings held true for organizations of varying sizes and fields of activity (see *Appendix Table 2*). Thus, overwhelming majorities of the boards of the small and the unaffiliated organizations also:

- Set organizational missions (92 percent and 87 percent, respectively);

- Set executive compensation (72 percent and 87 percent);
- Established and reviewed organizational budgets; (84 percent and 80 percent);
- Set organizational objectives (92 percent and 87 percent).

At the same time, a few key differences emerged (see *Appendix Table 2*). In particular:

- Boards at large organizations (expenditures over \$3 million) were more involved in organizational finances than those at small organizations (expenditures under \$500,000). Included here were functions such as establishing, reviewing, and approving compensation for the executive director (96 percent of large organization boards highly involved vs. 72 percent of small organization boards); and approving significant financial transactions (81 percent vs. 60 percent).
- On the other hand, the boards of the smaller organizations tended to be more heavily involved in some of the more detailed managerial functions, such as setting basic management policies (72 percent of small organization boards highly or significantly involved vs. 42 percent of large organization boards); setting program objectives (56 percent vs. 38 percent); setting program performance measures (56 percent vs. 34 percent); setting compensation for staff other than the CEO (48 percent vs. 23 percent).

Clearly, as organizations grow in size and complexity the capacity of the board to remain intimately involved in organizational management declines.

- Interestingly, different types of organizations make different uses of their boards. Thus:
  - *Theater* boards focus more on fundraising than other types of organizations and less on management functions such as setting organizational goals, reviewing accounting practices, and setting management policies. This may reflect the tradition of hands-off control of artistic content in cultural institutions.
  - *Community development organization* boards, by contrast, seem more community focused and are

therefore less commonly engaged in fundraising and more engaged in program operations.

- *Family service and elderly service* organizations adhere most closely to the classical strategic model of board operations, with overwhelming majorities of their boards heavily involved in setting basic organizational objectives and overseeing basic financial affairs and considerably smaller proportions involved in the details of program management. This very likely reflects the fact that these organizations tend to be quite large and complex.

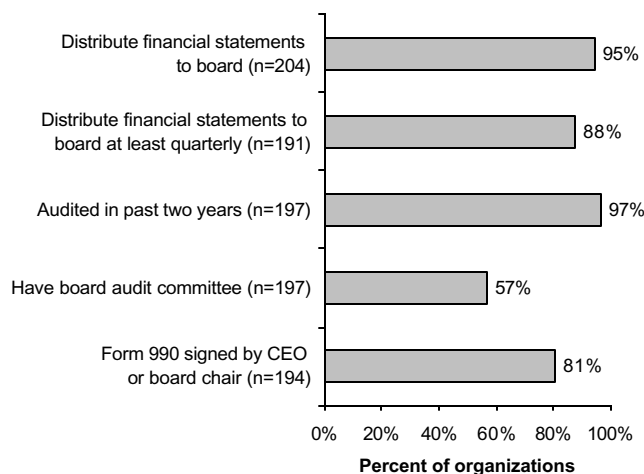
## II. Financial Disclosure

A key concern of the Senate Finance Committee staff report is that nonprofit organizations may not be submitting themselves to independent audits or otherwise disclosing their financial activities either to their boards or to other stakeholders. A central focus of our Sounding, therefore, was to examine the financial disclosure practices of our sampled organizations. What emerges from the responses is that the nonprofit organizations we surveyed are actively utilizing all three of the major means available to them for financial disclosure—regular financial statements, independent audits, and the annual financial reporting form (Form 990) registered nonprofit organizations with expenditures in excess of \$25,000 are required to file with the U.S. Internal Revenue Service. In particular:

### Financial Statements

- **Distribution to boards.** The overwhelming majority (95 percent) of sampled nonprofit organizations regularly distribute financial statements to their boards of directors (see *Figure 3*):
  - For 88 percent of these organizations, financial statements are distributed to the board at least quarterly.
  - For 62 percent of them, the statements are distributed to the board every month.
  - The vast majority (87 percent) of small organizations and unaffiliated organizations also distribute their financial statements to their boards at least quarterly.

**Figure 3**  
**Nonprofit Financial Disclosure Practices**



SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

- **Other distribution.** In addition to circulating their financial statements to their boards, sizable proportions of the organizations also:
  - Make their financial reports available for public review upon request (74 percent);
  - Distribute their financial reports to their funders (70 percent); and
  - Publish their financial statements in their annual reports (54 percent).
- **Web distribution.** Interestingly, only 9 percent of the organizations reported posting their financial statements on the organization’s web site.

### Audits

- **Widespread practice.** The overwhelming majority (97 percent) of the surveyed affiliated organizations reported having undergone an independent audit at some point over the previous two years (see *Figure 3*).
  - This was the case even though only 40 percent of the organizations reported being aware of a state requirement to be audited; and

- Only 32 percent of the organizations reported having been audited by a federal or state regulator over the past five years.
- **Action on audits.** Substantial numbers of these organizations reported taking meaningful action as a consequence of these audits. Thus:
  - 53 percent reported adding or strengthening internal management controls;
  - 32 percent reported adding or strengthening financial reporting;
  - 25 percent reported adding or strengthening asset or cash management procedures;
  - 12 percent reported adding or strengthening purchasing procedures or personnel policies.
- **Audit committee.** Substantial numbers (57 percent) of the responding organizations reported having a board committee devoted to the audit function, and another 14 percent of the organizations reported that they were considering creating such an audit committee. Other organizations may assign the audit function to a broader Finance Committee, however.
  - Almost all (95 percent) of the organizations with an audit committee of the board reported having a “financial expert” on this committee.
  - Even higher proportions of the organizations with audit committees (99 percent) reported that these committees were independent, i.e., they receive no fees.
- **Changing auditors.** In one of the few departures from practice that has been recommended for publicly traded private corporations under the Sarbanes-Oxley law, only about a third (34 percent) of the organizations reported having changed their audit firm in the past five years. However, another 11 percent reported they were currently considering making it a policy to do so.

### Form 990

A third means of nonprofit financial disclosure is the annual information return that all nonprofit organizations with expenditures in excess of \$25,000, except for religious congregations, are required to file with the Internal

Revenue Service. The Senate Finance Committee Staff Paper raised a number of questions about the diligence and precision with which nonprofit organizations complete these required forms and about the seriousness with which they take the Form 990 filing. It has also suggested that the Form 990 be broadened to capture nonprofit performance and not simply finances. The Sounding suggests that many of the concerns about the seriousness and timeliness of the Form 990 filings may be misplaced. In particular:

- The vast majority (81 percent) of organizations report that their Form 990s are signed by either the organization’s chief executives (73 percent) or their board chairs (8 percent). This is consistent with the recommendation embodied in the Sarbanes-Oxley law for the financial reports of publicly traded private companies (see *Figure 3*).
- Most surveyed nonprofit organizations (65 percent) relied on external consultants or firms to complete their Form 990 in the past year.
  - Of those organizations that relied on an external consultant or firm, the majority (64 percent) paid market price for the service.
  - However, 36 percent of the organizations secured this service at a reduced price, and 2 percent of these received it for free.
- A little over one-third of the surveyed organizations (37 percent) reported taking advantage of the available automatic three-month extension to file their Form 990 last year, and 8 percent of these also filed for an additional three-month filing extension. By comparison, Internal Revenue Service records show that over half of for-profit firms (54 percent) claimed the automatic tax filing extension last year.
  - The major reason for seeking a filing extension on the part of nonprofits was external—either a problem or setback with the external consultant (54 percent) or a failure on the part of a third party to provide some needed information. The fact that a third of the organizations get a reduced rate on their Form 990 work may explain this in part.
  - Only 37 percent of the organizations indicated that the delay was caused by a problem internal to the organization.

## Variations by Field and Size Class

Interestingly, as noted in *Appendix Table 3*, most of the findings reported here applied fairly uniformly among organizations of varying sizes and across the five fields of nonprofit activity on which this survey focused (family and children’s services, elderly services and housing, community and economic development, museums, and theaters). Especially notable in this regard were the following:

- More than three fourths (77 percent) of the small organizations, and a similar proportion of the unaffiliated organizations, reported having undergone an independent audit in the past two years. This suggests that such audits have become standard practice in the nonprofit field.
- Organizations of all size classes and in all fields were almost equally likely to keep their boards and funders regularly informed of their financial condition, though the smaller organizations were slightly more likely to do this on a quarterly rather than a monthly basis.

At the same time, a few variations were apparent. Thus:

- State audit requirements were considerably more in evidence for the large organizations (50 percent) as opposed to the small ones (13 percent). This makes the relatively high prevalence of audits among the smaller organizations all the more notable.
- Larger organizations were also more likely than the smaller ones to have special board audit committees (69 percent vs. 29 percent).
- Interestingly, reliance on outside firms to complete the Form 990 was more common among the smaller organizations than the larger ones. When the larger organizations turned to outside firms, moreover, they were more likely to pay the market price.

## III. Conflict of Interest and Related Ethics Protections

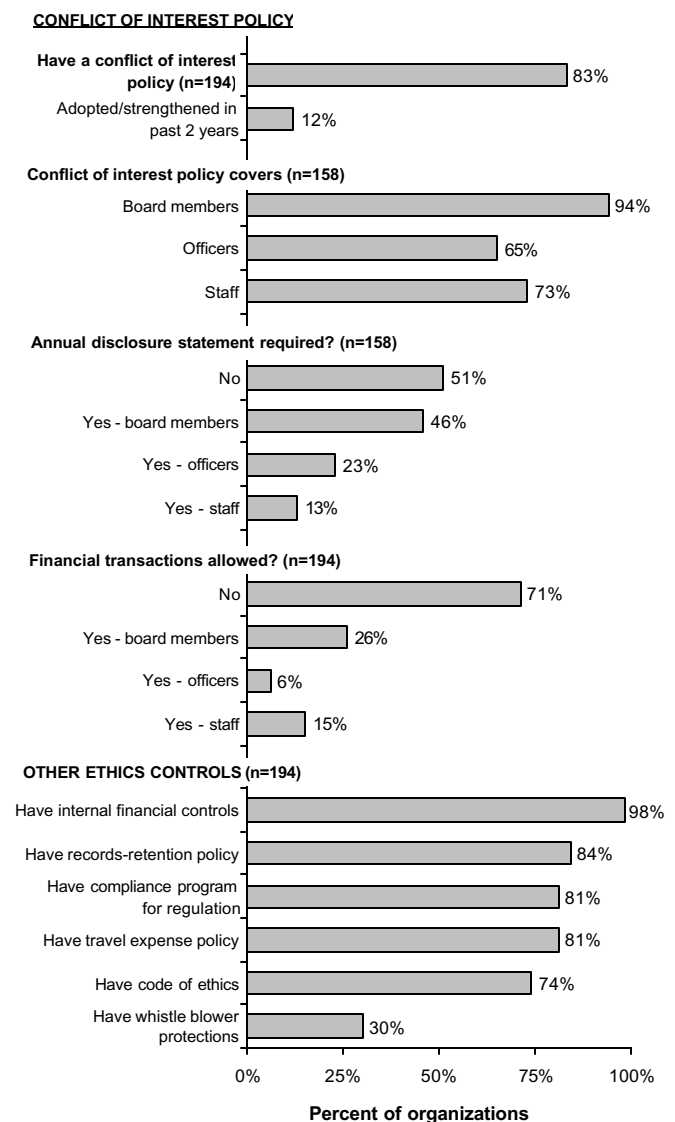
Quite apart from the issue of financial accountability, the Senate Finance Committee Staff Discussion Draft also raised questions about the extent to which nonprofits have other accountability and ethical controls in place to guard against conflicts of interest and other unethical behavior. Our survey revealed, however, that substantial majorities

of the surveyed organizations already have many of the recommended practices in place. In particular, as shown in *Figure 4*:

### Conflict of Interest Policy

- **Most organizations have conflict policies in place.** A substantial majority (83 percent) of surveyed nonprofits already have a conflict of interest policy in place, as recommended for publicly traded for-profit companies by the recently enacted Sarbanes-Oxley Law. Most of these provisions seem to have been

**Figure 4**  
**Nonprofit Ethics and Accountability Provisions**



SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

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adopted prior to Sarbanes-Oxley, though 12 percent of the organizations reported adding or strengthening them in the past 2 years, and another 9 percent are currently considering adopting them.

- **Application of conflict policies.** For the vast majority of these organizations (94 percent), the conflict of interest policy applies to all board members, and close to three-fourths (73 percent) of these groups also have a conflict of interest policy for staff.
- **Financial transactions with board members.** In the overwhelming majority of cases (71 percent), the organizations do not permit either board members, officers, or staff to engage in financial transactions with the organization (i.e., to receive compensation beyond that for regular employment or board service). For those that do, notification of other board members is typically required.
  - Of the organizations permitting such transactions, 63 percent reported that such transactions occurred during the past year.
  - Most commonly, these transactions were for legal services (33 percent).
  - Organizations engaging in these transactions claimed it gave them important advantages—a higher quality product or service (72 percent), savings of money (64 percent), and/or savings of time or management resources (53 percent).
- **Variation by organization size.** Not surprisingly, large organizations were much more likely than small ones to have a conflict of interest policy in place (91 percent vs. 67 percent), but a substantial majority of even the smaller organizations reported having such policies. The larger organizations were also more likely to allow financial transactions between the organization and board members (31 percent vs. just 17 percent for the small groups) (see *Appendix Table 4*).
- **Unaffiliated organizations.** A somewhat smaller proportion of the unaffiliated organizations we sampled reported having conflict of interest policies, but even among these organizations a majority (57 percent) reported having such policies in place.
- **Variation by field.** There was some variation in the presence of conflict of interest policies by field of

nonprofit activity. Generally speaking, family service and elderly service organizations were more likely to have such policies in place than theaters or museums (98 and 89 percent vs. 66 and 76 percent, respectively), with community development organizations in the middle at 80 percent. Fewer differences existed in the coverage and content of the conflict of interest policies among those organizations that had them in force, except that theaters were more lenient in permitting financial transactions with board members and staff than the other types of organizations.

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***“Nonprofit accountability hinges not upon regulation but upon the sector’s desire to retain the public trust essential to operate successfully....Adding extra rules and regulations to already understaffed nonprofit organizations is going to hurt these financially strapped organizations even more than they are already hurting.”***

–Executive Director of a museum

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#### **Other Governance and Ethics Restrictions**

- **Significant protections in place.** Substantial majorities of the surveyed organizations also reported having other recommended ethical controls in place. Thus:
  - 98 percent reported having internal controls on finances and financial accounting;
  - 84 percent reported having a records-retention policy;
  - 81 percent reported having compliance program(s) to address regulatory and liability questions; and
  - 74 percent reported having a code of ethics in force.
- **Variations by size of organization.** As with the conflict of interest provisions, smaller organizations were less likely to have some of these ethical protections in place than larger ones, though the differences were often not great (see *Appendix Table 4*). Thus over 90 percent of organizations of all sizes reported having internal financial controls in place, as did 85 percent of the unaffiliated organizations. When it came to for-

mal codes of ethics, records-retention policies, travel policies, and regulatory compliance programs, however, only about a half to two-thirds of the small organizations reported having them vs. 80-90 percent of the large organizations. What is more, the record of the unaffiliated organizations tracked that of the small organizations fairly closely, suggesting that it is size rather than membership in an umbrella organization that determines whether an organization has put such formal protections in place.

- **Variations by field.** Few major variations are apparent among fields in the extent of nonprofit adherence to the ethics and accountability provisions outlined here, with the possible exception that theaters appear to be less likely than organizations in the other fields to have formal codes of ethics or procedures for travel expenses or regulatory compliance.
- **Whistleblower protections.** In only one of the ethics and accountability areas cited by the staff of the Senate Finance Committee as needing legislatively mandated changes do nonprofit organizations appear to be lagging: the establishment of procedures to prevent retaliation against whistleblowers.
  - Less than a third (30 percent) of the responding organizations reported having such whistleblower protections in place, although 16 percent reported that they are considering adopting such provisions.
  - Community development organizations, theaters, museums, and smaller organizations in general appear least likely to have such protections.

### Recent changes

Strengthening accountability provisions has been a definite focus of nonprofit activity in recent years.

- Thus, almost half of the organizations reported that they had adopted or strengthened their procedures to prevent fraud and/or enhance organizational accountability over the previous two years (see *Table 3*).
- Of those that did not make such changes, the overwhelming majority (76 percent) felt that their procedures were already adequate.
- Among the organizations making changes, the most common areas of change were in personnel policies,

**Table 3: Recent Changes in Nonprofit Accountability Protections**

	Percent of Orgs.
Adopted new accountability measures in past 2 years (n=194)	47.0%
Type of measure adopted (n=92)	
Personnel policies	59.0%
Financial controls	58.0%
Training in ethical practices	50.0%
Strengthened by-laws	35.0%
Strengthened purchase process	28.0%

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

financial controls, and the introduction of ethical training for staff and board.

- Interestingly, relatively limited numbers of the organizations making recent changes in their accountability practices cited funder demands, media attention, or other outside pressures as reasons for the changes. Much more common were reasons related to a desire to ensure transparency and accountability (52 percent), demonstrate effectiveness (46 percent), and serve customers and clients better (36 percent).

The evidence at hand thus suggests that a substantial majority of nonprofit organizations, and certainly those belonging to the major national umbrella organizations, already have in place many of the ethics and accountability controls that the Senate Finance Committee staff has proposed to mandate by law. While there are variations in the extent of coverage of these provisions, the variations relate mostly to organization size and are thus arguably a function of variations in the complexity of the organizations and hence in the need for formal policies. Even among the smallest organizations, however, half or more typically have in place the major accountability controls being recommended.

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*“The agency I represent, and I believe many like ours, have always held high standards for ethics and accountability. We understand the value of public trust both for donors and for those who use our service.”*

–Executive Director of a children and family service organization

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### III. Adherence to Best-Practice Standards

In addition to proposing legislatively mandated ethics and accountability controls for nonprofit organizations, the Senate Finance Committee Staff Discussion Draft also proposed the establishment or certification of one or more accreditation programs to ensure that nonprofits adhere to “best practices.” Under the staff proposal, the IRS would be empowered to base decisions on continuation of charitable status on whether organizations were in compliance with such standards.

Underlying this recommendation is the assumption that the nonprofit sector lacks such standards currently. As Senate Finance Committee Chairman Grassley put it in June 2004, “recurrent problems in the nonprofit sector” are often related to nonprofits’ “failure to abide by best practices.”<sup>8</sup>

In practice, however, the nonprofit sector is served by a wide variety of accreditation services and best-practice codes. Some of these are sector-wide in scope, such as the Better Business Bureau standards. Others are industry-focused, administered by umbrella organizations or special accreditation bureaus. Still others are associated with government programs such as Medicare and Medicaid.

To what extent are nonprofit organizations already enrolled in such accreditation programs? Our Sounding sheds some useful empirical light on the answer to this question.

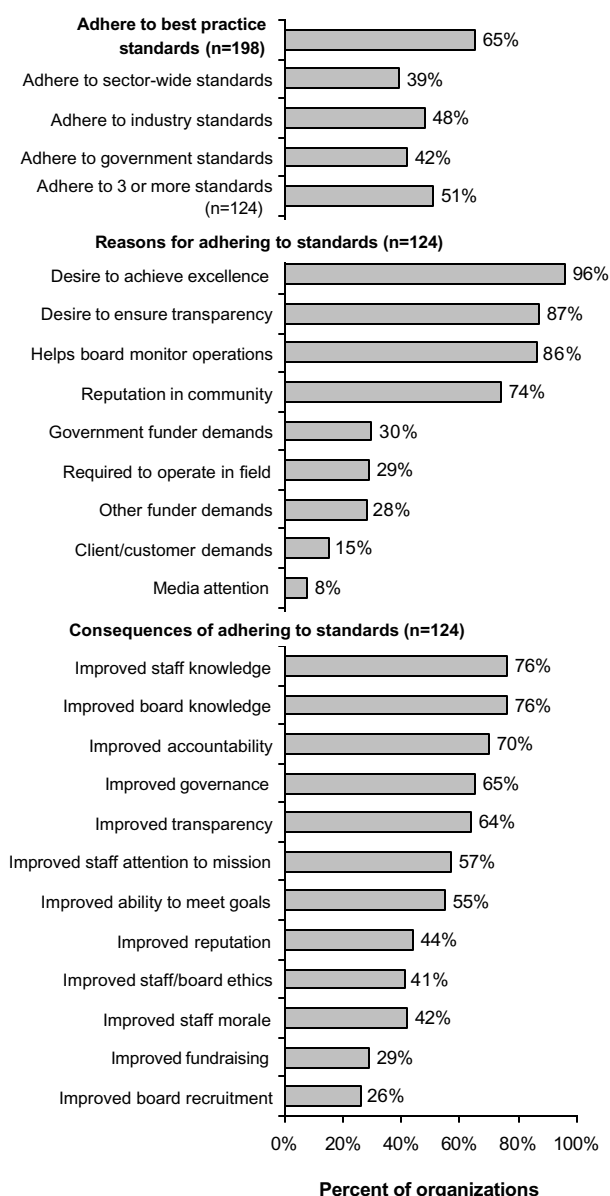
#### Widespread Coverage of Best-Practice Standards

- Nearly two thirds (65 percent) of the organizations in our core sample already take part in best-practice accreditation programs (see *Figure 5*). Of those that do not take part, moreover, the principal reason cited for this is that the organization follows its own internally developed standards.

- Industry standards most common.** Among the external standards and accreditation programs, the most common are ones that apply to particular fields or industries. Nearly half (48 percent) of the organizations reported following such industry standards. The second most common standards are those associated with government programs. Forty-two percent of the organizations reported adhering to such government-associated standards. Finally, 39 percent of the organizations reported adhering to accreditation standards that apply to the nonprofit sector as a whole.

- Multiple standards.** Not only are our surveyed nonprofit organizations already extensively subject to accreditation programs, moreover, but also they are often subject to more than one such program. Indeed, of those organizations participating in accreditation programs, most (59 percent) are involved in more than one such program, and over half (51 percent) are involved in three or more. This creates a variety of duplicative, and occasionally conflicting, pressures on organizations.

**Figure 5**  
**Nonprofit Adherence to Best Practice Standards**



SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

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## Reasons for Participating in Best-Practice Accreditation Programs

Why do organizations participate in such accreditation programs, and why would they participate in more than one? Obviously, it must be because they get something of value out of them. But what?

- **Desire for excellence and transparency the dominant reasons.** The major factors leading nonprofit executives to enroll in best-practice accreditation programs appear to be internal in character. Thus, 96 percent of the executives cited the contribution these standards make toward achieving organizational excellence, 86 percent cited their contribution to transparency, and a similar percentage cited their capacity to reassure the board that the organization is functioning ethically and effectively. Improving the organization's reputation in the community was also a widely cited factor (see *Figure 5*).
- **Limited influence of external pressures.** By contrast, external pressures appear to play a more limited role in explaining the widespread adherence to best-practice standards among nonprofit organizations. Thus, as shown in *Figure 5*, only 30 percent or fewer of the organizations adhering to external standards cited government or other funder demands as the reason, only 15 percent cited client demands, and only 8 percent cited recent media attention to accountability issues within the nonprofit sector.
- **Sanctions.** Also motivating nonprofit organizations to participate in best-practice accreditation programs is a concern that failure to participate has costs. Thus, 70 percent of the organizations felt they would lose funding if they were unable to demonstrate adherence to external standards, 69 percent worried about the loss of a coveted seal of approval, and a third thought they could lose their ability to operate in their field.

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*“The agency is accredited, the therapists are licensed, other program staff meet criteria for supporting national affiliation. Accountability costs have added huge costs to our agency at a time when state, national, foundation, and personal giving are limited.”*

—Executive Director of a children and family service organization

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*“We established strict policies on conflict of interest, an audit committee, a compensation committee, and other committees because we are aware that full disclosure is the best policy and keeps all those involved honest. We have established the policies without a government requirement to do so and expect that many other organizations have done so as well.”*

—Executive Director of a community development organization

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## Consequences of Adherence to Best Practice Standards

These accreditation and best-practice standards programs do seem to have delivered positive results for the organizations participating in them. Interestingly, however, the most commonly identified benefits were also internal to the organizations rather than external.

- **Significant effects on internal operations.** Thus, as shown in *Figure 5*, the benefits that nonprofit executives most commonly attributed to participation in accreditation programs were improved staff and board knowledge (76 percent), improved accountability and governance (65-70 percent of the organizations), and enhanced staff attention to the organization's mission (57 percent of the organizations).
- **Less widespread effects on external stakeholders.** By contrast, fewer than half of the organizations cited improved reputation, increased fundraising, or enhanced ability to recruit board members as effects of the standards programs.

## Variations in Adherence to Standards Programs

- **Uneven participation.** Despite the identified advantages of adhering to standards programs, there is considerable variation in the extent to which organizations take part in such programs. In particular:
  - **Variations by field.** Adherence to best-practice standards is especially widespread among nonprofit children and family service organizations (91 percent), elderly housing and service organizations (87 percent), and museums (79 percent). By contrast, only two-fifths of all community and economic development groups, and only one-quarter of all theaters reported participating in such programs (see *Appendix Table 5*).

- **Variations by size of organization.** Large organizations were also much more likely than small ones to follow such standards (71 percent vs. 46 percent). This very likely has to do with the costs of compliance with such standards.
- **Variations by affiliation status.** Adherence to such external standards is much less common among the organizations that are unaffiliated with the national umbrella organizations than among the affiliated ones. Thus, compared to the 65 percent participation rate among the affiliated organizations, the participation rate in best-practice standards programs among the unaffiliated organizations was only 31 percent. This may be partly due to the generally small size of the unaffiliated organizations. But affiliation status likely plays a role as well, particularly in view of the fact that the most common standards are those applicable to particular industries, many of which are managed by the umbrella organizations.
- **Variations in reasons for participation.** Interesting variations were also evident in the reasons organizations in different fields offered for their participation in best-practice accreditation programs. In particular:
  - Funder demands, including those from government, and customer pressures, seem to have been significantly more important for *community development organizations* than for other types of organizations (see *Appendix Table 5*).
  - By contrast, funder demands were far less important reasons for participating in best-practice standards for *museums* than for other types of organizations; and for both *theaters and museums* client/customer demands were also less important. *Theaters* also tended to see fewer reputational gains from participation in best-practice accreditation programs. And the theaters that took part in accreditation programs were far less likely than other types of organizations surveyed to identify concrete improvements resulting from it. This may help explain why only 25 percent of the theaters reported participating in such standards programs.

#### IV. Organizational Changes

As a way to enforce stricter nonprofit management and accountability controls and ensure against “mission drift”

on the part of nonprofit organizations, the Senate Finance Committee Staff Discussion Draft also suggested requiring nonprofits to re-apply for tax-exempt status every five years. As part of the re-application process, organizations would be required to submit not only their articles of incorporation and by-laws, but also conflict of interest policies, evidence of accreditation according to IRS-approved best-practice standards, key management policies, a detailed narrative about organizational practices, and financial statements. Moreover, nonprofits would have to pay a fee for this review.

Underlying this suggestion is a belief that nonprofits often stray from their original charitable mission and take on new functions, or new structures, that no longer qualify them for charitable status under the Internal Revenue Code.

But how common are such changes in organizational purpose and structure? And how regularly do organizations making such changes inform the IRS? The evidence from our Sounding casts some useful light on these issues as well.

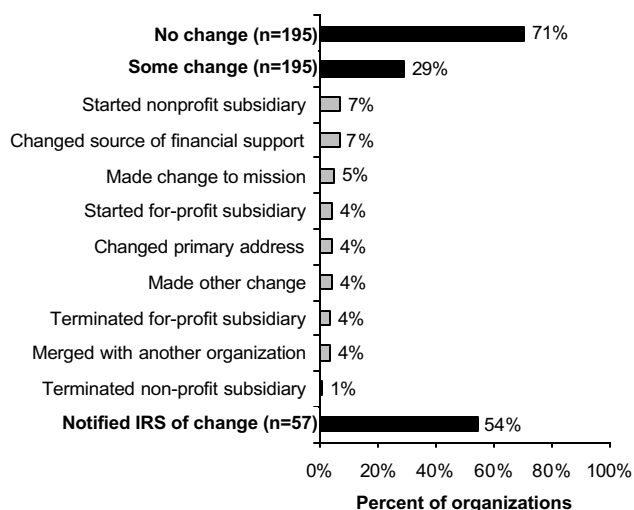
#### Overall Extent of Changes

- **Most organizations report no significant changes.** As noted in *Figure 6*, most of the organizations surveyed (71 percent) reported no significant or material change in their basic structure, mission, or mode of operation over the previous two years.
- **Some organizations did experience changes.** A significant minority of organizations (29 percent) did, however, report material changes.
  - Interestingly, the most common change was the creation of a nonprofit subsidiary (7 percent of organizations). Also quite common was a change in the structure of financing (7 percent), though this is more routine.
  - Slightly less frequent were a variety of other changes—significant change to organizational mission (5 percent), creation of a for-profit subsidiary (4 percent), change of primary address (4 percent), merger with another organization (4 percent), and termination of a for-profit subsidiary (4 percent).

#### Variations by Type and Size of Organization

- **Changes most common among community development and family service organizations.**

**Figure 6**  
**Major Changes in Organizational Mission or Structure**



SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

Organizations in different fields turned out to differ significantly in the extent to which they made material changes in their mission or structure over the previous two years (see *Appendix Table 6*). Such changes were most common among community development and family service organizations (55 percent and 39 percent, respectively) and least common among theaters and museums (11 percent and 24 percent, respectively).

- **Types of changes different in different fields.** The types of changes that these organizations pursued also differed widely. Thus, for *community development organizations*, the most common changes involved the creation of subsidiaries, both nonprofit and for-profit, and shifts in mission. For the *family service organizations*, the most common changes involved mergers with another agency and the termination of for-profit subsidiaries. *Elderly service organizations* were also extensively engaged in creating subsidiaries, though a significant 11 percent also reported a material change in mission.
- **Large organizations more likely to make changes.** The extent of change also varied by the size of the organization. Larger organizations were considerably more likely to make material changes in their mission or structure than were small organizations (35 percent vs. 13 percent). Especially prominent among the changes reported by the larger organizations, more-

over, were major shifts in structure through the creation of nonprofit and for-profit subsidiaries and mergers with other organizations.

- **Unaffiliated organizations less likely to make changes.** Organizations not affiliated with the major national umbrella organizations also seem to have been somewhat less likely to make material changes in their mission or structure. One reason for this may be that knowledge about the advantages of such changes may be one of the benefits of such affiliation so that the unaffiliated organizations may simply be out of the loop on them.

### Notification of IRS?

The evidence above thus suggests a considerable amount of adaptation on the part of nonprofit organizations to changes in the funding and competitive environment within which they operate. The crucial question about these changes, however, is not whether they occur, but whether the organizations notify the IRS about them so that changes that might affect the organization's charitable status might be noted.

- **Most organizations inform IRS.** Of the organizations reporting changes in mission or structure over the previous two years, most (54 percent) reported complying with IRS policy by notifying the IRS of their actions.
- **Family service and community development organizations most likely to report.** Family service organizations and community development organizations were most likely to report their changes to the IRS, but these were also the types of organizations that were most likely to make such changes, and to make changes of a significant sort (e.g., mergers, creation of nonprofit and for-profit affiliates). By contrast, theaters and museums were far less likely to report, perhaps because the changes they experienced were less momentous (e.g., most of the museums reporting changes altered their financing sources, hardly a reportable change).
- **Unaffiliated organizations less likely to report.** The unaffiliated organizations were also less likely to report their changes to the IRS. However, the types of changes reported by these organizations were also less likely to trigger questions about their charitable status (e.g., changes in sources of support and in primary address).

All of this suggests that the concerns about major changes in charitable status going unreported to the IRS may be overdrawn.

## V. Nonprofit Awareness

For nonprofit organizations to perform any of their governance responsibilities effectively, they must, of course, be aware of them. But how aware are nonprofit officers and board members of these responsibilities? And to what extent are they informed about the important changes recently made or under consideration regarding nonprofit governance?

From the evidence of our survey, there is reason for cautious optimism.

### Awareness of Nonprofit Laws

- **Most boards and officers at least somewhat knowledgeable about nonprofit laws.** In the first place, although only 18 percent and 17 percent of nonprofit organization boards and officers are “extremely knowledgeable” about state and federal nonprofit laws, respectively, another 61 and 60 percent, respectively, are reportedly at least “somewhat knowledgeable” about them (see *Figure 7*).
- **Few variations among types of organizations.** Interestingly, few significant variations in levels of awareness were apparent among organizations of different sizes or fields of activity. Although theater boards and the boards of small organizations were less likely to be “extremely knowledgeable” about either state or federal laws, majorities of both were at least “somewhat knowledgeable” (see *Appendix Table 7*).

### Board Attention to Recent or Pending Legislation

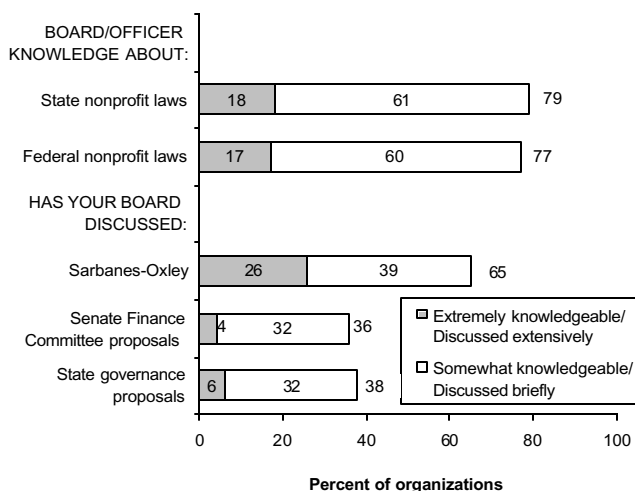
- Exposure to recent or pending legislation on nonprofit governance has been somewhat limited among nonprofit boards.
  - **Sarbanes-Oxley.** Sarbanes-Oxley, the federal law mandating changes in governance among the nation’s publicly traded, for-profit corporations, has attracted the most attention among nonprofit boards. However, only 26 percent of the organizations reported that their boards had discussed Sarbanes-Oxley “extensively,” though an additional 39 percent indicated that they had discussed it at least “briefly” (see *Figure 7*).

- **Senate Finance Committee and state governance proposals.** Far fewer organizations reported board discussions of the pending Senate Finance Committee proposals or similar measures under consideration at the state level. Thus only 4-6 percent of the organizations reported that their boards had discussed these proposals “extensively,” though just under a third indicated that the boards had discussed them at least “briefly.”

- **Variations by Type and Size of Organization**

- *Family service* and *elderly service* organizations have done especially effective jobs of engaging their boards in discussions of recent or pending legislation on nonprofit governance. Thus a third of the former and over half of the latter reported “extensive” board discussions of Sarbanes-Oxley. And roughly half of these organizations reported at least brief discussions of the Senate Finance Committee and related state proposals (see *Appendix Table 7*).
- Attention to these legislative governance measures is much more common among large organizations than small or medium sized ones. This is understandable since these organizations are more likely to have the staff to follow such measures, but the small and medium-sized organizations may be in greatest need of attention to the proposed provisions.

**Figure 7**  
**Nonprofit Awareness**



n=191  
SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

- The organizations affiliated with national umbrella organizations also seem to devote more board attention to recent and pending governance legislation than do the unaffiliated organizations. Thus only 5 percent of the latter reported “extensive” board discussions of Sarbanes-Oxley, and even brief board discussions of the Senate Finance Committee and state proposals was rare.

## Conclusion

Recent media exposés of apparent lapses in nonprofit governance have created an impression of widespread lack of transparency, management controls, and accountability among the nation’s nonprofit organizations. This has led, in turn, to state-level and Congressional proposals to impose significant new legal requirements on the management of these organizations.

Before moving forward with such proposals, it is important to gauge the extent of the alleged management lapses. Although this has been difficult heretofore, the survey reported here casts some new light on many of the practices being proposed for regulation.

What this evidence strongly suggests is that the presumed problems with the management and accountability of nonprofit organizations have been significantly exaggerated. At least among the organizations affiliated with the major nonprofit umbrella groups in such fields as children and family services, elderly housing and services, culture and the arts, and community and economic development, there is solid evidence of effectively functioning boards, reasonable management and accountability practices, widespread adherence to best-practice accreditation systems, and reasonable conflict of interest and related ethical standards. What is more, though it is harder to be sure from the evidence at hand, many of these measures appear to be in place at significant proportions of the unaffiliated organizations in these fields as well.

This is not to say that all nonprofit organizations are paragons of organizational virtue. Important variations exist among organizations of different sizes and types in their application of effective management and accountability practices. However, the dire assessments emanating from alarmist media accounts seem significantly overdrawn. The nonprofit sector is well along toward getting its organizational house in order and legislative fixes premised on worst-case scenarios should therefore be approached with considerable caution.

## Endnotes

1 U.S. Senate Finance Committee, *Staff Discussion Draft* (June 22, 2004) (<http://finance.senate.gov/hearings/testimony/2004test/062204stfdis.pdf>).

2 U.S. Senate Finance Committee, *Charity Oversight and Reform: Keeping Bad Things from Happening to Good Charities*, 108th Congress, second session (June 22, 2004) S. HRG. 108–603, p. 1 (<http://finance.senate.gov/hearings/95482.pdf>).

3 U.S. Senate Finance Committee, *Staff Discussion Draft*, 12.

4 Judith Sidel, *Guide to the Literature on Governance: An Annotated Bibliography* (Washington, D.C.: BoardSource, 2002).

5 The Johns Hopkins Listening Post Project maintains two panels of nonprofit organizations in its fields of operation. The first is a panel of 443 organizations self-selected from the membership of five nonprofit umbrella associations that are part of the Project’s Steering Committee (the Alliance for Children and Families, the American Association of Museums, the American Association of Homes and Services for the Aging, the National Congress for Community Economic Development, and the Theatre Communications Group). The second is a panel of 162 unaffiliated organizations in similar fields randomly selected from the Internal Revenue Service’s Exempt Organization Master File. The project regularly takes “Soundings” of these organizations on key challenges facing the nonprofit sector. The Sounding on governance was fielded on March 3, 2005, and closed on March 25, 2005. For this Sounding, 605 organizations—443 affiliated and 162 unaffiliated organizations—were approached and 247, or 41 percent, responded. Among the affiliated organizations, 207, or 47 percent, responded, quite high for surveys of this sort. The data reported here focus chiefly on this sample of affiliated organizations, though the results for the unaffiliated sample are also presented for comparison. Appendix A provides detail on the size and fields of both the affiliated and unaffiliated panels.

6 Copies of this Communiqué are available at [www.jhu.edu/listeningpost](http://www.jhu.edu/listeningpost).

7 See, for example, Richard T. Ingram, *Ten Basic Responsibilities of Nonprofit Boards* (Washington D.C.: BoardSource, 2003). BoardSource is the principal nonprofit organization dedicated to improving the operation of nonprofit boards. Heading the list of recommended board responsibilities according to BoardSource are: determining the organization’s mission and purpose; selecting the chief executive; providing proper financial oversight; ensuring adequate resources; ensuring accountability and legal and ethical integrity; ensuring effective organizational planning; and supporting the chief executive and assessing his or her performance.

8 U.S. Senate Finance Committee, *Charity Oversight and Reform: Keeping Bad Things from Happening to Good Charities*, 1.

## Appendix Table 1 Respondents by Field and Size of Organization

Field	Affiliated Orgs.*		Unaffiliated Orgs.**	
	n	%	n	%
Community and Economic Development	20	9.7%	10	25.0%
Theaters	57	27.5%	6	15.0%
Elderly Housing and Services	41	19.8%	22	55.0%
Museums	32	15.5%	2	5.0%
Children and Family Services	57	27.5%	-	-
TOTAL	207	100.0%	40	100.0%
Size	n	%	n	%
Small (<\$500,000)	26	12.6%	21	58.3%
Medium (\$500,000 to \$3,000,000)	69	33.5%	13	36.1%
Large (>\$3,000,000)	111	53.9%	2	5.6%
TOTAL*	206	100.0%	36	100.0%
<i>*Note: One respondent without revenue figure</i>				
<i>**Note: Four respondents without revenue figure</i>				

## Appendix Table 2 Functions of Nonprofit Boards

(% of organizations reporting boards are highly or significantly involved)

Function	All Orgs. n=	Affiliated Organizations							Unaffiliated Orgs. n=	
		Field					Size*			
		Family Services	Elderly Services	Comm Develop.	Museums	Theaters	Small	Medium		Large
	204	57	41	20	30	56	25	68	111	39
Setting organizational missions/goals	93.1%	96.2%	100.0%	100.0%	96.6%	78.6%	92.0%	88.2%	96.4%	87.3%
Setting executive compensation	87.7%	100.0%	97.6%	100.0%	66.7%	75.0%	72.0%	80.9%	95.5%	87.2%
Establishing/reviewing budgets	87.2%	93.0%	90.2%	85.0%	80.0%	83.9%	84.0%	80.9%	91.8%	79.5%
Setting organizational objectives	86.8%	89.5%	95.1%	95.0%	90.0%	73.2%	92.0%	83.8%	87.3%	87.1%
Reviewing auditing/acctg practices	82.8%	94.7%	90.3%	95.0%	73.3%	66.1%	80.0%	77.9%	86.5%	71.8%
Approving significant financial transactions	80.9%	91.3%	75.3%	75.0%	76.7%	71.4%	60.0%	82.4%	80.9%	69.3%
Fundraising efforts	70.1%	80.7%	58.5%	40.0%	63.3%	82.1%	50.0%	70.5%	72.0%	61.5%
Advocacy activities	42.6%	49.1%	26.8%	40.0%	46.7%	46.5%	32.0%	48.5%	41.4%	43.6%
Setting program objectives	41.7%	33.3%	51.2%	70.0%	36.7%	35.7%	56.0%	42.6%	37.8%	58.9%
Setting basic management policies	40.5%	70.2%	31.7%	85.0%	53.4%	30.3%	72.0%	55.9%	42.3%	61.5%
Setting program perform. measures	35.8%	36.8%	41.5%	45.0%	36.7%	26.8%	56.0%	30.8%	34.2%	38.5%
Setting staff compensation	29.4%	22.8%	36.6%	50.0%	30.0%	23.3%	48.0%	33.9%	22.5%	48.7%

\* Small= organizations with annual expenditures of <\$500,000

Medium= organizations with annual expenditures of \$500,000 - \$3,000,000

Large= organizations with annual expenditures of >\$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

## Appendix Table 3 Financial Disclosure

Function	All Orgs.	Affiliated Organizations								Unaffiliated Orgs.
		Field					Size*			
		Family Services	Elderly Services	Comm Develop.	Museums	Theaters	Small	Medium	Large	
<i>Distribution of financial statements</i> n=	204	57	41	20	30	56	25	68	111	39
Distribution to board	95%	95%	93%	100%	93%	95%	92%	93%	96%	100%
At least quarterly	88%	98%	88%	85%	82%	83%	87%	84%	91%	87%
Sent to funders	70%	75%	51%	75%	57%	84%	60%	72%	71%	54%
Printed in annual report	54%	79%	59%	55%	50%	29%	32%	47%	64%	41%
Posted on web site	9%	19%	7%	5%	7%	2%	4%	6%	12%	8%
Available to public on request	74%	86%	71%	70%	63%	70%	68%	69%	78%	69%
Independent audit in past 2 years	97%	100%	100%	90%	90%	98%	79%	99%	100%	77%
State requires annual audit	40%	57%	40%	25%	17%	40%	13%	34%	50%	28%
Recently audited by state or feds	32%	63%	44%	30%	7%	5%	16%	21%	42%	18%
<i>Audit led to strengthening:</i> n=	198	57	47	18	27	55	20	67	111	28
Internal management controls	51%	61%	44%	39%	44%	53%	50%	46%	54%	39%
Financial reporting	30%	26%	20%	11%	44%	40%	45%	28%	28%	42%
Asset or cash management	24%	23%	15%	17%	33%	29%	25%	24%	23%	22%
Purchasing/personnel procedures	12%	14%	10%	6%	7%	15%	15%	8%	14%	19%
Have board audit committee	57%	70%	67%	55%	52%	42%	29%	48%	69%	31%
Changed auditor in past 5 years	34%	35%	42%	25%	21%	38%	25%	39%	34%	18%
Form 990 signed by CEO or board chair	81%	92%	61%	85%	89%	79%	91%	92%	72%	87%
Took automatic Form 990 extension	37%	38%	21%	65%	15%	43%	35%	44%	38%	41%
Took additional 3-month extension	8%	6%	11%	5%	4%	11%	9%	6%	8%	10%

\* Small= organizations with annual expenditures of <\$500,000  
 Medium= organizations with annual expenditures of \$500,000 - \$3,000,000  
 Large= organizations with annual expenditures of >\$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

## Appendix Table 4 Ethics and Accountability Provisions

Type of Provision	All Orgs.	Affiliated Organizations								Unaffiliated Orgs.
		Field					Size*			
		Family Services	Elderly Services	Comm Develop.	Museums	Theaters	Small	Medium	Large	
n=	194	54	38	20	29	53	24	65	105	39
<i>Have conflict of interest policy</i>	82.5%	98.1%	89.4%	80.0%	75.9%	66.1%	66.6%	73.9%	91.4%	56.5%
Adopted/strengthened past 2 yrs	11.9%	11.1%	10.5%	10.0%	6.9%	17.0%	8.3%	6.2%	16.2%	10.3%
<i>Conflict policy covers</i>										
Board members	94.3%	100.0%	94.1%	100.0%	91.3%	85.3%	93.3%	91.3%	95.9%	89.5%
Officers	64.6%	73.6%	73.5%	85.7%	60.9%	35.3%	66.7%	58.7%	67.0%	73.7%
Staff	72.8%	84.9%	55.9%	92.9%	78.3%	58.8%	73.3%	80.4%	69.1%	42.1%
<i>Financial transactions allowed</i>										
No	70.6%	72.2%	76.3%	85.0%	79.3%	54.7%	83.3%	73.8%	65.7%	74.4%
Yes- Board Members	25.8%	25.9%	21.1%	15.0%	20.7%	35.8%	16.7%	21.5%	30.5%	13.1%
Yes- Officers	5.7%	3.7%	2.6%	10.0%	6.9%	7.5%	8.3%	4.6%	5.7%	15.4%
Yes- Staff	14.9%	9.3%	10.5%	5.0%	10.3%	30.2%	12.5%	13.8%	16.2%	23.1%
<i>Have internal financial controls</i>	97.5%	100.0%	100.0%	100.0%	93.1%	94.4%	91.7%	96.9%	99.1%	84.6%
<i>Have records-retention policy</i>	84.0%	96.3%	100.0%	85.0%	62.1%	71.7%	50.0%	84.6%	91.5%	71.8%
<i>Have travel expense policy</i>	81.0%	90.7%	89.5%	90.0%	75.9%	64.1%	66.6%	73.8%	83.6%	61.5%
<i>Have compliance programs for rglt/n</i>	81.4%	100.0%	97.4%	80.0%	69.0%	58.5%	45.9%	81.5%	89.5%	48.7%
<i>Have code of ethics</i>	74.2%	90.7%	86.9%	70.0%	82.8%	45.2%	66.6%	64.7%	81.9%	53.9%
<i>Have whistleblower protections</i>	29.9%	38.9%	53.2%	10.0%	27.5%	5.7%	12.5%	16.9%	41.9%	48.7%

\* Small= organizations with annual expenditures of <\$500,000  
 Medium= organizations with annual expenditures of \$500,000 - \$3,000,000  
 Large= organizations with annual expenditures of >\$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

**Appendix Table 5**  
**Adherence to Best Practice Accreditation Standards**

	All Orgs.	Affiliated Organizations									Unaffiliated Orgs.
		Field						Size*			
		Family Services	Elderly Services	Comm Develop.	Museums	Theaters	Small	Medium	Large		
<i>n</i> =	126	49	33	8	23	13	11	40	75	39	
<i>Adherence to best practice standards</i>	65.0%	91.0%	87.0%	40.0%	79.0%	25.0%	46.0%	62.0%	71.0%	31.0%	
Adhere to sector wide standards	35.7%	63.0%	60.5%	20.0%	17.2%	17.0%	20.8%	27.7%	49.5%	15.4%	
Adhere to industry standards	47.9%	77.8%	63.2%	15.0%	58.6%	13.2%	29.2%	36.9%	59.0%	10.3%	
Adhere to government standards	41.8%	72.2%	73.6%	15.0%	17.2%	11.3%	8.3%	27.7%	58.1%	15.4%	
<i>Reasons for adhering to standards</i>	<i>n</i> =	124	49	32	8	22	13	10	40	74	12
Desire to achieve excellence	96.0%	100.0%	93.8%	87.5%	95.5%	92.3%	100.0%	95.0%	95.9%	91.7%	
Desire to ensure transparency	87.1%	93.9%	78.1%	87.5%	90.9%	76.9%	100.0%	82.5%	87.8%	91.7%	
Board monitoring	86.3%	87.8%	87.5%	100.0%	81.8%	38.5%	90.0%	92.5%	82.4%	50.0%	
Reputation	74.2%	85.7%	65.5%	75.0%	81.8%	38.5%	50.0%	70.0%	79.7%	66.7%	
Government funder demands	29.8%	30.6%	18.8%	87.5%	22.7%	30.8%	40.0%	35.0%	25.7%	33.3%	
Required to operate in field	29.0%	28.6%	21.9%	37.5%	27.3%	46.2%	20.0%	27.5%	31.1%	0.0%	
Other funder demands	28.2%	36.7%	15.6%	62.5%	13.6%	30.8%	30.0%	22.5%	31.1%	25.0%	
Client /customer demands	15.3%	12.2%	21.9%	37.5%	9.1%	7.7%	0.0%	10.0%	20.3%	8.3%	
Media attention	8.1%	12.2%	9.4%	12.5%	0.0%	0.0%	0.0%	2.5%	12.2%	0.0%	
<i>Consequences of adhering to standards</i>	<i>n</i> =	122	47	32	8	22	13	10	40	74	12
Improved staff knowledge	75.6%	73.7%	84.4%	87.5%	5.7%	33.3%	70.0%	75.0%	76.7%	41.6%	
Improved board knowledge	75.6%	77.1%	81.3%	87.5%	81.8%	38.5%	90.0%	75.0%	73.9%	50.0%	
Improved accountability	70.1%	83.7%	59.4%	87.5%	68.2%	38.5%	90.0%	72.5%	66.2%	25.0%	
Improved governance	65.4%	62.3%	59.4%	75.0%	72.7%	46.2%	100.0%	77.5%	55.6%	25.0%	
Improved transparency	64.2%	68.8%	53.1%	75.0%	77.2%	46.2%	90.0%	67.5%	58.9%	25.0%	
Improved staff attention to mission	56.5%	53.1%	75.0%	77.5%	44.2%	7.7%	60.0%	57.5%	55.4%	27.3%	
Improved ability to meet goals	54.5%	47.9%	71.9%	75.0%	59.1%	15.4%	60.0%	55.0%	54.5%	25.0%	
Improved reputation	43.5%	46.8%	50.0%	75.0%	36.4%	7.7%	40.0%	40.0%	45.9%	41.6%	
Improved staff morale	42.3%	35.5%	56.3%	75.0%	36.4%	23.1%	50.0%	42.5%	41.1%	25.0%	
Improved staff/board ethics	41.3%	39.1%	37.5%	75.0%	50.0%	23.1%	70.0%	35.9%	40.2%	16.7%	
Improved fundraising	28.9%	31.9%	16.1%	40.0%	31.8%	30.8%	50.0%	37.5%	21.1%	25.0%	
Improved board recruitment	26.0%	25.0%	28.1%	12.5%	36.3%	15.4%	20.0%	35.0%	21.9%	16.7%	

\* Small= organizations with annual expenditures of <\$500,000  
Medium= organizations with annual expenditures of \$500,000 - \$3,000,000  
Large= organizations with annual expenditures of >\$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

**Appendix Table 6**  
**Major Changes in Organizational Mission or Structure**

Changes	All Orgs.	Affiliated Organizations									Unaffiliated Orgs.
		Field						Size*			
		Family Services	Elderly Services	Comm Develop.	Museums	Theaters	Small	Medium	Large		
<i>n</i> =	195	54	38	20	29	54	24	65	106	39	
<i>No changes</i>	70.8%	61.1%	68.4%	45.0%	75.9%	88.9%	87.5%	73.8%	65.1%	79.5%	
<i>Some changes</i>	29.2%	38.9%	31.6%	55.0%	24.1%	11.1%	12.5%	26.2%	34.9%	20.5%	
Started non-profit subsidiary	7.2%	3.7%	13.2%	25.0%	0.0%	3.7%	0.0%	4.6%	7.2%	2.6%	
Changed sources of financial support	6.7%	3.7%	5.3%	10.0%	17.2%	3.7%	4.2%	7.7%	6.7%	7.7%	
Changed mission	5.1%	3.7%	10.5%	10.0%	8.9%	0.0%	0.0%	4.6%	5.1%	2.6%	
Started for-profit subsidizing	4.1%	3.7%	7.9%	15.0%	0.0%	0.0%	0.0%	1.5%	4.1%	2.6%	
Changed primary address	4.1%	7.4%	0.0%	10.0%	3.4%	1.9%	0.0%	3.1%	3.8%	5.1%	
Terminated for-profit subsidizing	3.6%	7.8%	5.3%	5.0%	0.0%	0.0%	0.0%	1.5%	3.6%	0.0%	
Merged with another organization	3.6%	11.1%	0.0%	5.0%	0.0%	0.0%	4.2%	0.0%	5.7%	0.0%	
Terminated non-profit subsidizing	1.0%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	1.0%	0.0%	
Made other changes	4.1%	3.7%	10.5%	5.0%	0.0%	1.9%	0.0%	4.6%	4.7%	0.0%	
<i>Notified IRS of change</i>	54.4%	71.4%	50.0%	63.6%	28.6%	16.7%	66.7%	47.1%	56.8%	37.5%	

\* Small= organizations with annual expenditures of <\$500,000  
Medium= organizations with annual expenditures of \$500,000 - \$3,000,000  
Large= organizations with annual expenditures of >\$3,000,000

SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

## Appendix Table 7 Nonprofit Awareness

	All Orgs.	Affiliated Organizations								Unaffiliated Orgs.
		Field					Size*			
		Family Services	Elderly Services	Comm Develop.	Museums	Theaters	Small	Medium	Large	
n=	191	54	36	20	28	53	23	65	103	39
<i>Board/officer knowledge about</i>										
State nonprofit laws										
	17.8%	20.4%	19.4%	40.0%	14.3%	7.5%	17.4%	13.8%	20.4%	12.8%
	60.7%	63.0%	72.2%	40.0%	53.6%	62.3%	52.2%	60.0%	63.1%	59.0%
Federal nonprofit laws										
	17.4%	16.7%	19.4%	40.0%	14.3%	7.7%	13.0%	13.8%	20.6%	7.7%
	60.0%	61.1%	72.2%	40.0%	53.6%	61.5%	60.9%	60.0%	59.8%	61.5%
<i>Has board discussed?</i>										
Federal Sarbanes-Oxley										
	26.2%	33.3%	52.8%	10.0%	14.3%	13.2%	8.7%	12.3%	38.8%	5.3%
	39.3%	50.0%	25.0%	45.0%	35.7%	37.7%	26.1%	41.5%	40.8%	15.8%
Senate finance proposals										
	4.2%	5.7%	13.9%	0.0%	0.0%	0.0%	4.3%	3.1%	5.0%	0.0%
	31.7%	49.1%	33.3%	20.0%	28.6%	20.0%	17.4%	27.7%	37.6%	7.7%
State governance proposals										
	6.3%	11.3%	8.3%	5.0%	3.6%	5.0%	0.0%	1.5%	10.9%	2.6%
	31.7%	43.4%	44.4%	30.0%	21.4%	30.0%	21.7%	21.5%	40.6%	12.8%

\* Small= organizations with annual expenditures of <\$500,000  
 Medium= organizations with annual expenditures of \$500,000 - \$3,000,000  
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SOURCE: Johns Hopkins Nonprofit Listening Post Project, Nonprofit Governance and Accountability Sounding, 2005

### For More Information

A copy of this report is available online at [www.jhu.edu/listeningpost/news](http://www.jhu.edu/listeningpost/news). For further information on the Listening Post Project, contact the Center for Civil Society Studies, Institute for Policy Studies, Johns Hopkins University, 3400 N. Charles Street, Baltimore, MD 21218; [listeningpostproject@jhu.edu](mailto:listeningpostproject@jhu.edu).

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