

Risk Management

A Guide for Nonprofit and Charitable Organizations

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The logo for Canada, featuring the word "Canada" in a serif font with a small Canadian flag icon above the letter "a".

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Risk Management

Introduction

Risk management is any procedure or practice that nonprofit and charitable organizations use to reduce exposure to liability. Managers at nonprofit and charitable organizations may not think they have enough time to develop organizational and structural policies that protect the organization from exposure to financial liabilities. But developing and implementing good policies and procedures can minimize the risk faced by boards of directors, staff, and volunteers. Although they will not entirely eliminate the risk of financial liability, risk management procedures can reduce the exposure to an acceptable level.

Few agencies have the reserves or funds necessary for complete self-insurance of their exposures. Purchasing insurance, however, is not synonymous with risk management. In the nonprofit sector, practicing risk management is living the commitment to prevent harm. In addition, risk management addresses many risks that are not insurable – such as the potential loss of tax exempt status, public goodwill, and continuing donor support.
(Alliance for Nonprofit Management).

During 2004, the Prince Albert & District Chamber of Commerce conducted research to find out what strategies nonprofit and charitable organizations use to minimize and deal with risk. The Knowledge

Development Centre at Imagine Canada funded the research project.

A total of 81 nonprofit and charitable organizations from across Canada responded to our survey. This planning guide is based on the responses to our survey and is supported by information that we gathered through a review of existing literature. We have included a section of promising practices that we think will be helpful to nonprofit and charitable organizations.

We hope that this planning guide will enable managers and board volunteers to better understand the importance of risk management and to learn how easy and inexpensive it is to implement risk management policies and procedures.

The Importance of Risk Management

Nonprofit and charitable organizations have traditionally engaged in basic risk management. These practices include obtaining insurance coverage for volunteers; screening volunteers to protect clients from harm; developing board orientation and training materials; developing strong employment practices; and implementing policies and procedures that protect the organization.

The issue of liability changed because of two rulings by the Supreme Court of Canada in 1999 (Jordan, 1999): *Children’s Foundation v. Bazley* (also known as *Bazley v. Curry*) and *Boys’ and Girls’ Club of Vernon* (also known as *Jacobi v. Griffiths*). In both cases, the Supreme Court of Canada imposed vicarious liability on nonprofit and charitable organizations. Vicarious liability means that a person or organization is liable for another person’s actions, even though they are not directly responsible for the actions.

These cases were landmark decisions for the nonprofit and charitable sector in Canada. For the first time, organizations could be responsible for what their employees or volunteers did, even if the organization did not do anything wrong. As a result of the rulings, “insurance companies are raising rates to unaffordable levels when there is no due diligence program in place, excluding many programs and services from coverage and disqualifying a wide range of organizations from any coverage” according to the Voluntary Sector Initiative’s 2003 *Pre-Budget Submission to the House of Commons Committee of Finance* (Voluntary Sector Initiative, 2003).¹

Research Objectives and Methodology

Objectives

The purpose of our study was to find out how much nonprofit and charitable organizations understand about risk management and to learn about the strategies, programs, and procedures that Canadian nonprofits and charitable organizations are using to manage risk.

Specifically, our objectives were:

1. To identify strategies that Canadian nonprofit and charitable organizations use to minimize risk and to highlight some of the most commonly used strategies.
2. To identify which strategies most effectively reduce the levels of risk.
3. To demonstrate how these strategies can be implemented in a cost-effective manner.

Our research consisted of three stages:

1. a review of existing literature on risk management in both the for-profit and nonprofit sectors;
2. a survey of nonprofit organizations about their risk management practices; and
3. an analysis and report of our findings.

Survey

Our survey was a self-administered questionnaire that included both open and closed questions.² We sent our survey to Canadian Chambers of Commerce and nonprofit and charitable organizations in their communities.

¹ A due diligence program is one where a nonprofit and charitable organization has a process for assessing the risk and liability of its organizational structure and mode of operation. If one is not in place then insurance companies will either charge very high premiums or may not be willing to provide insurance at all.

² An open question allows the respondent a lot of scope with regard to the content of the response; this approach is useful in qualitative studies. A closed question has a restricted choice of answers such as Yes or No or a range of opinion on a scale of strongly agree to strongly disagree; this approach is useful for quantitative analysis of results.

We distributed the survey to 298 nonprofit and charitable organizations across Canada including 55 Chambers of Commerce, 11 service clubs/ organizations, 10 non-government organizations, 3 Friendship Centres and 2 nonprofit business/ development corporations. The final sample includes respondents from all provinces and a wide range of nonprofit and charitable organizations that perform a variety of functions.

Response Rate

We began by sending an introductory letter that explained the research project along with our survey. If an organization did not return the survey within the specified time, we contacted them again by telephone, fax, or email.

The researchers hoped that 50% of the respondents would complete the survey; however, we received 81 completed surveys, which meant a response rate of 27%. When we followed up, the people who did not respond indicated that they did not have time. We sent the survey to the director or managers of the organizations and concluded that we may not have had the response rate we hoped for because of the high workload of people in these positions.

Research Findings

In our survey, we asked what risk management activities an organization used and what other activities were part of their risk management plans. The following section provides a summary of the research findings. It is organized by the questions in the survey.

How many people are involved in your organization?

On average, 192 people were involved in the organizations we surveyed, not including Board and committee members or volunteers for projects or events. The average Board had 15 members. On average,³ organizations had 51 volunteers on committees. Many organizations (42%) said that not as many people were volunteering as in the past. Most of the respondents said that volunteers were less involved because they did not have time.

What does risk management mean?

Many organizations (46%) said that risk management meant having a good management plan or process to handle risk or liability. Others said it meant reducing financial liability, ensuring that the organization had insurance, and making sure the members and clients of the organization are safe and secure.

How did you learn about risk management?

Most organizations learned about risk management from knowledgeable staff and from the historical records of their organization. More than half of the respondents (56%) said they believed that their directors, officers, and volunteers understood the concept of risk management.

³ This average is based on the total number of volunteers identified by the 81 survey respondents.

Does your organization have a risk management plan?

Less than half (46%) of the organizations surveyed said they had a risk management plan in place. Of the other organizations, 43% had no formal program in place and 11% were unsure.

Who is responsible for risk management?

In many organizations (41%), the executive director or manager is responsible for implementing and managing the risk management plan.

What is included in your risk management plan?

The respondents said their risk management procedures included strategies such as:

- financial reporting
- liability insurance for directors and officers
- precise and detailed job descriptions
- orientation for Board members and volunteers
- monitoring and measuring staff and volunteer performance
- clearly written policies
- strategic and long-range planning
- insurance coverage for specific events.

When asked how their organizations manage risk, most managers indicated that they use timely and informative financial reporting, insurance, volunteer management policies, and board governance and long-range planning.

Financial management

The majority of respondents (75%) said their risk management strategy included financial management, which means timely and informative financial reporting. Even though some respondents did not believe their organization had a formal risk management plan, they still felt financial management was important.

Insurance

Most respondents (73%) said that their risk management included directors and officers liability insurance and 59% said that they used insurance coverage for specific events.

Volunteer management

Board and volunteer orientation was part of risk management for 68% of the respondents. As well, 60% said that monitoring and measuring staff and volunteer performance was part of risk management.

Board governance and planning

Most respondents (60%) used board governance and long-range planning. Their risk management also included clearly written policies.

Components of Risk Management

This section includes more information about financial management, board governance and management, volunteer management, and insurance. The information is taken from a range of published sources and complements our findings. We have started the section by identifying common areas of exposure to financial risk.

Common Areas of Exposure to Financial Risk

There are seven key areas where nonprofit and charitable organizations are exposed to risk: fraud, misuse of funds, tax liabilities, potential loss of nonprofit or charitable status, investments, fundraising activities, and the loss of physical assets.⁴ The best way to control risk in these areas is to develop and use effective internal controls. Management has a major role to play in controlling risk. We will talk more about management controls in the Board governance and planning section.

1. Fraud

There are many ways to defraud an organization. People inside or outside an organization can commit fraud or steal an organization's assets or resources. An employee can embezzle funds, steal office supplies or merchandise, increase their expense accounts, or create a fictitious company and bill the organization for services they did not perform. An outsider can sell fake merchandise, overcharge the organization for materials or services, or persuade the organization to make bad investments.

Organizations have also discovered other groups using their name and logo to raise money. If you find that someone is using your name you must act immediately to protect your organization. If another group uses your name and logo to stage a fundraising event, you could be liable for any injuries at that event.

One way to protect your logo is to register it as a trademark. This gives your organization the exclusive right to use the logo in Canada. However, Trademark Offices do not monitor or enforce how trademarks are used. It's your responsibility to start professional or legal action if someone uses your logo. A registered trademark is legal evidence that you own the logo. Registering a trademark can also be preventive. If you own a trademark, there is less risk that another organization will claim to own it and challenge your right to use the mark (Carter, 2004).

2. Misuse of funds

Nonprofit and charitable organizations are usually told exactly how they can use the gifts or money they receive. If the organization uses money for something else, this is a misuse of funds. The funder could withdraw the money, ask for the money back, or refuse to give any support in future. Organizations that misuse funds could face legal action or lose their tax-exempt status.

The *Charities Act* and the *Income Tax Act* of Canada outline how to protect your organization from misuse of funds.⁵

⁴ This information has been adapted from the Web site of the Alliance for Nonprofit Management (Alliance for Nonprofit Management).

⁵ See the Government of Canada, *Charities Act*. Last retrieved July 5, 2005: <http://www.cra-arc.gc.ca/E/pub/tg/rc4108/README.html> and the Government of Canada, *Income Tax Act, Charities and non-profits*. Last retrieved July 5, 2005: <http://laws.justice.gc.ca/en/l-3.3/index.html>

3. Tax liabilities

Although they are tax exempt, nonprofit and charitable organizations are required to pay many taxes. Organizations are at risk if they do not follow tax regulations. The *Canada Corporations Act Part II* focuses on nonprofit and charitable organizations and states the requirements for organizations in Canada.⁶

All employers must submit payroll deductions. Nonprofit and charitable organizations are no exception. They must submit Canada Pension, Employment Insurance premiums, and federal income taxes withheld from employees' pay. Failure to do so can result in fines. All directors should request regular reports on the status of payroll deductions and remittance. The *Income Tax Act* requires that directors ensure the organization takes these deductions from employee pay cheques. The *Act* also releases directors from personal liability if they have done everything a prudent person can be expected to do to ensure individuals' taxes are paid.

It is unlikely that a nonprofit and charitable organization would have sales tax or GST liabilities. But, as organizations search for creative ways to raise funds, sales can become more important. Your organization may be required to pay sales tax if you sell merchandise.

4. Noncompliance to charitable regulations

Registered charities can lose their tax-exempt status if they take on activities that are not related to their charitable purpose, or if they spend their money incorrectly. Registered charities must file an annual information return with the Canada Revenue Agency.

If registered charities do not follow these requirements, they risk losing charitable status.

5. Investment exposure

Every organization has different types and sizes of investments. Smaller organizations may only have cash on hand while larger institutions such as hospitals, colleges, and universities may have large endowment funds. Every nonprofit and charitable organization needs to monitor and control its investments, no matter how large or small. The board of directors should establish an investment policy that guides investment and financial decisions.

6. Fundraising activities

Organizations can be responsible for injuries or harm to any participants – employees, volunteers, and the general public – involved in fundraising events.

7. Loss of physical assets

Your organization's physical assets – including furniture, fixtures, equipment, and supplies – may also be at risk. You could lose these items through fire, flood, or theft. Your organization also has a wealth of information and confidential data on its computers. An angry employee, volunteer, or computer hacker could harm the organization by stealing or damaging these assets. Any of these losses could have a devastating effect on the organization and its ability to deliver its mission. The best way to protect these assets is by setting up systems and procedures to limit the number of people who have access to them.

⁶ Government of Canada, Not for profit organizations (Canada Corporations Act Part II). Last retrieved July 5, 2005: http://strategis.ic.gc.ca/epic/internet/incnd-dgc.nsf/en/h_cs02145e.html

Financial Management

Financial resources or assets fall into three categories – money, goods, and services. Money consists of cash, checking and savings accounts, securities and other investments. Goods involve merchandise or stock, supplies, and equipment. Services are the programs and activities the organization offers to its clients. Accountants classify goods and services as resources because they have a value or may be used to create value or revenues.

(Alliance for Nonprofit Management).

Adequate financial resources – defined above as money, goods, and services – allow an organization to achieve its mandate. Organizations would not survive without these resources. The financial management component of risk management protects the financial assets of an organization. We discuss five types of financial management controls below.

1. Accounting controls

Accounting controls are the procedures an organization uses to safeguard its assets. Accounting controls also provide reliable and accurate financial records. They allow the board and senior management to monitor financial operations. Each organization should make sure its risk management plan includes four types of accounting controls: authority and approval, proper documentation, physical security, and early detection.⁷

2. Authority and approval procedures

Organizations should identify who has the authority to perform and approve certain transactions such as approving invoices and expense accounts, signing checks, and dispensing supplies. The organization's bylaws and procedures manual should outline who is authorized to do these things.

3. Proper documentation

Make sure that you document every financial transaction. Every registered nonprofit or charitable organization must follow standards about filing, record-keeping, and financial reporting. These requirements vary but usually include filing each year with the government, maintaining internal records such as minutes of meetings, bookkeeping, and regular audits. Most jurisdictions, whether federal or provincial, also require regular board meetings and annual meetings of members. If you fail to meet these requirements, your organization could be dissolved, face financial penalties, or both. The requirements for federally incorporated nonprofit and charitable organizations are listed in the *Canada Corporations Act*.⁸ The requirements for provincially-incorporated nonprofit organizations vary in different jurisdictions. *The Incorporation Guide* lists information for all jurisdictions in Canada.⁹

4. Physical security

As few people as possible should have access to key physical assets like accounting records, personnel files, merchandise, supplies, and equipment.

⁷ We referred to the following document when we developed these control types: *What is Risk Management?* Last retrieved July 5, 2005 from the Alliance for Nonprofit Management Web site: http://www.allianceonline.org/FAQ/risk_management/what_is_risk_management.faq

⁸ See the Government of Canada, *Not for Profit Organizations (Canada Corporations Act Part II)*. Last retrieved July 5, 2005 from the Government of Canada Web site: http://strategis.ic.gc.ca/epic/internet/incd-dgc.nsf/en/h_cs02145e.html

⁹ See the Government of Canada, *Applying for incorporation – Not for Profit*. Last retrieved July 5, 2005 from the Government of Canada Web site: <http://strategis.ic.gc.ca/epic/internet/incd-dgc.nsf/en/cs00022e.html>

5. Early detection

With proper controls in place it is easier to detect fraud in your organization provided those who deviate from the procedures are reported immediately. Proper controls will often help identify fraudulent activity before it results in a significant financial loss. For controls to work, everyone must follow the established procedures.

Board Governance and Financial Management

Much of the literature that we reviewed suggests that governance and proper controls are important aspects of risk management.

Nonprofit and charitable organizations are legal entities separate from their members and directors. They do not exist to make a profit for their members, directors, or officers. While a nonprofit or charitable organization can earn a profit, it can only use the profit to further its mandate. A nonprofit organization can be a church or church association, school, charity, medical provider, activity club, volunteer services organization, professional association, research institute, museum, or a sports association.

An organization may incorporate federally or provincially. A local organization that works in the community or province usually incorporates provincially. If your organization is active in more than one province under the same corporate name and wishes to easily move its office around the country, you should incorporate federally. A federally incorporated organization may also need to register provincially, depending on the kind of activities it conducts in each province.

Each province has guidelines about what a nonprofit or charitable organization must do to maintain its status. These include bylaws, general administration requirements including meetings and annual returns, and audit requirements. The provincial guidelines are an excellent place to start learning about the basic legal requirements of nonprofit and charitable organizations. In addition, the Charities Directorate of the Canada Revenue Agency makes sure that registered charities follow the *Income Tax Act*.

As supporters and builders of organizations, board members play a vital role in questioning and monitoring an organization. Their role includes governance and management of the organization.

Governance

The first step in ensuring good governance is for the organization to address a series of questions:

- Do board members fully understand their legal duties?
- Do board operations reflect a commitment to fulfill these duties?
- Has the board established rules and procedures to govern its operations?
- Are these rules and procedures followed?
- What happens when you suspect a breach of a fiduciary duty?¹⁰

In *By Definition: Policies for Volunteer Programs*, Linda Graff highlights several important reasons for developing clear policies of governance. She points out that all organizations regularly make policy decisions, even though they may not call them

¹⁰ A fiduciary is a person, institution or company with legal authority and duty to manage, invest, and distribute assets for another party. The fiduciary owes good faith, loyalty, diligence, trust, and responsibility to the beneficiary. For nonprofit and charitable organizations, a fiduciary has the responsibility to account for the application of funds that it receives from the public and applies it to the best interest of the charity and the public.

policies, and they often do not write them down. Organizations need policy to decide how to react when faced with a crisis or how to act in the future in order to prevent the situation from happening again. Writing policies can be as simple as formalizing decisions that have already been made (Graff, 1997).

Here are seven reasons why organizations should develop clear policies.

1. Policies determine actions that will be taken and set boundaries around activities.
2. When you write decisions as policies and give them to employees and volunteers they will be taken more seriously and ensure that policies are followed.
3. Policies clarify responsibilities and define lines of communication and accountability.
4. Policies provide a structure for sound management. Since policies often identify the 'what' and sometimes even the 'how,' they can bring about program improvements and increase organizational effectiveness.
5. Policies ensure consistent work quality among staff members and over time. Policies can promote equity and standardization.
6. Policies create and state values, beliefs, and directions.
7. Policies can be an important, concrete, ongoing element of volunteer recognition. This helps increase volunteer satisfaction, productivity, and retention.

Financial Management Controls

Simple controls such as financial policies and procedures can help organizations achieve their objectives. They can also minimize the risks associated with meeting those objectives. The board

of directors and senior management are responsible for proper financial administration.

Collectively, the board carries the fiduciary responsibility (the responsibility for funds entrusted to the board on behalf of the public) for the organization. The entire board is responsible for the health of the organization. The budget, the accounting information system and financial policies are the tools the board uses to exercise its fiduciary responsibility. (Board Development Program, 2000).

The board of directors is also responsible for establishing financial policies on investments and loans. Ensuring proper financial and accounting procedures are also part of the board and senior management's responsibilities.

One common financial control is an audit. Both incorporated and non-incorporated groups must be audited every year. The purpose of an audit is to verify the organization's position and financial records once a year. The audit should show that the organization is responsibly using its money to meet its main purpose. However, an audit will not necessarily detect fraud. The auditor checks financial records and then prepares a statement that gives an opinion about the honesty and accuracy of the financial records.

Other useful control systems include: setting overall objectives, setting and reviewing budgets, and regular financial reporting. These simple systems provide the information necessary for management to compare financial progress versus goals and to make adjustments when appropriate.

Volunteer Management

Why are volunteers a risk to nonprofit and charitable organizations?

Every nonprofit and charitable organization should be concerned about its volunteers getting hurt and should take steps to reduce the chance of this happening. However, this is just one of many risks that organizations must recognize and address. A greater risk may be that the volunteer harms another volunteer, an employee, or a client.

Volunteer Canada has developed a *Safe Step* method that organizations can use to make sure that the people they serve are safe. The following ten steps developed by Volunteer Canada will help organizations minimize the risks associated with using volunteers.¹¹

1. Determine the risk

Examine your programs and services for potential dangers. This can help prevent or eliminate the risk altogether.

2. Write clear descriptions for every volunteer position

Carefully worded position descriptions send the message that an organization is serious about screening its volunteers. The description should include responsibilities and expectations, including what a volunteer can and cannot do. It should also list the screening requirements, such as medical exam, driver's record, or a police records check.

3. Establish a formal recruitment process

Decide how to recruit volunteers. Whether your organization posts notices in grocery stores or sends flyers home with children, you must point out that screening is part of the application process. When a volunteer changes positions, the screening procedures may change as well.

4. Use an application form

The application form will give you contact information for every volunteer. If you use screening measures, the application form must include a mechanism for obtaining and confirming the volunteer's permission.

5. Conduct interviews

The interview is an opportunity to talk to the potential volunteer about their background, skills, interests, and availability. It can help determine what role is most appropriate for each person. It is also a chance to explore any doubts you have about the person's suitability.

6. Follow up on references

People often do not expect you to check their references. You should check three references and not assume that applicants only give you the names of people who will speak well of them.

7. Request a police records check

Police checks signal that the organization is concerned about the safety of its participants.

¹¹ See Volunteer Canada. *Screening: Volunteer Canada's Safe Steps Screening Program*. Last retrieved July 5, 2005 from Volunteer Canada's Web site: <http://www.volunteer.ca/volcan/eng/content/screening/safe-steps.php?display=3,2,3>

8. Conduct orientation and training sessions

Orientation and training sessions are also an important part of screening volunteers. They are a chance to observe volunteers in a different setting. These sessions also allow organizations to inform volunteers about policies and procedures.

9. Supervise and evaluate

The level of risk associated with a volunteer position is an indication of how closely to supervise and evaluate volunteers. High-risk positions must be closely supervised. Use probation periods – these period give the organization and the volunteer time to learn more about each other. Give volunteers feedback often. You can only evaluate a volunteer's performance based on the position description.

10. Follow up with program participants

Regular contact with participants and family members can deter someone who might otherwise harm others. These could include spot checks for volunteers in high-risk positions. Make sure you tell volunteers about what follow-up activities you will use.

Insurance

Most nonprofit and charitable organizations carry insurance to help manage their risk of liability. To minimize directors personal liability, organizations can carry Directors and Officers Liability Insurance (DOLI). This insurance only covers liabilities that result from a director's wrongful acts. Although few claims against directors are substantiated and fewer of these result in large financial awards, the legal cost of defending a claim can be significant. DOLI is valuable for covering these costs.

Other types of insurance protect other parts of the organization and against other types of risks. Table 1 outlines different types of insurance you should consider.

Table 1: Types Of Insurance For Nonprofit Organizations

Type of Insurance	What it Covers	Notes
General Liability	<p>Covers against third parties who make claims against you.</p> <p>Liability insurance protects against claims made by people who are injured on your premises, during one of your activities, or by people whose property is damaged because of an event held by, or in, your organization.</p>	<p>This is the basic form of coverage that all nonprofit and charitable organizations should carry.</p> <p>Read your policy carefully: general liability insurance usually excludes many things. The exclusions are listed in the policy. General liability usually won't cover automobile-related claims, coverage for professional activities, employee theft, or gross misconduct by employees.</p> <p>General liability insurance does not usually cover lawsuits involving unfair employment practices or poor management practices.</p>
Automobile Liability	<p>If your staff or volunteers drive, you must purchase automobile liability insurance.</p> <p>Automobile insurance typically provides separate coverage, with separate premiums, for your liability for injuries to others, for damage to your auto, and for the risk that another motorist may be uninsured or underinsured.</p>	<p>Read the policy carefully to find out what is covered and what is excluded. If your policy only covers your organization's vehicles it won't help if your volunteer is driving their own vehicle when an accident occurs. Private insurance is also not likely to cover damages incurred while volunteers are performing duties for an organization.</p>
Casualty	<p>Covers damage to your property by acts of God (earthquake, flood) or by third parties (vandalism, malicious mischief, or fire).</p>	<p>If volunteers use their own property while taking part in your programs, you should carry this type of insurance (Volunteer Canada, 2003).</p>
Professional Liability	<p>Covers liability claims against licensed experts who deliver services for you.</p>	<p>You must carry this type of insurance if licensed practitioners deliver your services.</p>
Directors and Officers (DOLI)	<p>Protects board members from personal liability.</p> <p>This type of insurance protects your organization from the cost of paying for your directors' liability.¹²</p>	<p>If you do not have Directors and Officers Insurance, you may have trouble attracting board members. Make sure that your policy covers the costs of defense.</p> <p>Prospective board members should think carefully before they agree to serve on a board that does not have Directors and Officers coverage.</p>
Bonding	<p>Protects your organization from loss in case of financial misconduct by officers or employees.</p> <p>If a bonded person takes money, the bonding company will pay your organization.</p>	<p>You should bond all officers and all employees who have financial responsibilities. The amount of the bond should be equal to the amounts that they usually handle.</p> <p>The bond will state a maximum, and will require that you pay a deductible.</p>
Umbrella Coverage	<p>When the primary coverage is exhausted, umbrella coverage covers additional liability.</p>	<p>Since most insurance claims never exceed the primary policy limits, umbrella coverage is generally less expensive than general liability.¹³</p>

¹² See http://www.aon.com/ca/en/risk_insurance/insurance/liability/do_liability.jsp. Volunteer Canada. *Director's Liability: A Discussion Paper on Legal Liability, Risk Management and the Role of Directors in Non-Profit Organizations*. 1st Edition. Ottawa: 2003. p. 10

¹³ One insurance that covers a wide range of possibilities may be more appropriate than having several specific insurances and paying a premium for each especially if an organization undertakes activities with relatively low risk.

Why Should Organizations Develop a Risk Management Plan?

There is risk inherent in everything we do. Volunteers, employees and directors of organizations must always be mindful of risks – this means examining situations cautiously and thinking ahead to the potential consequences of their decisions and actions. (Volunteer Canada, 2003).

Canadian nonprofit and charitable organizations are becoming more aware of how important risk management is for their health and continued success. Risk management is like thinking of the organization as a patient. You check its vital signs: funding, cash flow, employee and volunteer turnover rates, past incidents, losses, and lawsuits. These tell you how well your organization is fulfilling its mission and meeting the needs of its community. When you see a problem, you should find out where it started, figure out how to treat the problem, apply solutions, and evaluate the results. Schedule regular check-ups to monitor the organization's vital signs. This process will make a critical difference in your organization's future health (Reiss, 2001).

A risk management plan will help your organization deal with accidents or losses that occur. A nonprofit or charitable organization that understands a broad range of risks can better assess, evaluate, and prioritize risks. The organization can then decide what long and short-term approaches will help manage those risks.

A fundamental requirement for practising integrated risk management is the development of plans, processes and products through ongoing consultation and communication with stakeholders (both internal and external) who may be involved in or affected by an organization's decisions and actions. (Robillard, 2001).

Before you Develop a Risk Management Plan

Risk management is the thoughtful process of recognizing and controlling risks so you can protect and conserve resources. Before you create a risk management plan, look at where the organization is vulnerable and could be threatened, and take appropriate steps. Here are four steps to follow:

Step One

Look for possible risks for your organization. Ask, "What could go wrong?"

Step Two

Assess the possible risks for your organization. Ask, "How would our organization be affected?"

Step Three

Decide how to control the risks. Ask, "What will we do?"

You have choices:

- you can accept the risk and prepare for the consequences;
- you can decide not to offer the service or program because the risks are too high;

-
- you can find ways to reduce the risk. You can change what you are doing, or develop procedures that will decrease the chances of harm and the effects of any damage;
 - you can shift the risk or financial liability by purchasing insurance, or you can find another group to offer the program or service if you decide it is too risky for your organization.

Step Four

Develop a plan or strategy. Ask, “How will we do it?”

The planning sheet on page 15 is a guide that can be adapted to suit your organization. You can use it for each particular risk you are considering.

Communicating your Risk Management Plan to Staff and Volunteers

Telling people about risks and how to avoid them is an essential part of risk management. Educating the directors, officers, employees, and volunteers will help prevent mistakes caused by ignorance. Members, volunteers, and clients must fully understand what they need to do and what they cannot do. Here are three things you can do to communicate your risk management plan to staff and volunteers.

1. Develop orientation programs for new employees and new volunteers. Your orientation may have other purposes, but it should include a thorough discussion of risk management. Make sure to include your organization’s mission statement, goals, policies, procedures, and culture.
2. Wherever possible, train volunteers for the specific job, task, or service you want them to perform. Training volunteers is one way you can make sure that the volunteer knows how to perform those tasks, and has the skills and commitment they need to fulfill their role.
3. Offer training to develop, update, and refresh the skills of your volunteers. Continuing education should address and expand the knowledge of all volunteers.

Risk Management Planning Sheet

What is the possible risk?:

How we should respond?:

What we expect will result from this response?:

Action Plan					
What we will do?	What resources do we need?	Who is responsible?	When should it be completed?	What do we need to monitor?	When should we report, and to whom?

Plan developed by:

Date developed:

Plan reviewed by:

Date reviewed:

Conclusion

Risk management and liability is a topic that is often discussed among people working with nonprofit and charitable organizations. We conducted research to learn more about the strategies and procedures that some nonprofit and charitable organizations use to deal with risk. We found out that, among the organizations we surveyed, less than half (46%) had a risk management plan in place.

Yet, each organization faces different risks and should plan and implement different ways to deal with those risks. Each nonprofit and charitable organization is complex and unique, so one-size-fits-all risk management programs are not possible. The experience and knowledge of volunteers, board members, and staff should be the basis for developing a sound risk management program.

In this planning guide we have suggested that risk management plans must include financial management, board governance and management, volunteer management, and insurance. Most of our respondents indicated that they included one or more of these components in their risk management activities.

Risk management is the thoughtful process of recognizing and controlling risks so you can protect and conserve resources. It should cover all aspects of your organization including its mission, goals, activities, staffing, and funding. Risk management can be incorporated into general program planning. When you decide on goals for the organization and the activities needed to achieve them, include risk management in your plan. It is better to plan for risk than to deal with problems.

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Notes

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