CohnReznick
Accounting • Tax • Advisory

Promoting Confidence: Assessing the Processes and Priorities

CohnReznick 2016 Not-for-Profit Governance Survey

A CohnReznick LLP Report
SEPTEMBER 2016

Table of Contents

Methodology

The 2016 CohnReznick Not-for-Profit Governance Survey was distributed via email to not-for-profit industry professionals and board members across the United States. The survey was conducted over five weeks during the spring of 2016.

Based on feedback from the 2015 survey respondents, the 2016 survey was expanded from 38 to 42 questions. In an effort to establish trend data, many questions included in the 2016 survey had also been asked and answered in either one or both of the previous two surveys.

The majority of questions focused on the not-for-profit organization's governance and risk management policies and procedures. These included questions about the Board structure, policies and procedures, training, and committees.

616 not-for-profit executives responded to the 2016 CohnReznick Not-for-Profit Governance Survey. Participation continues to grow—a 31% increase over our 2015 survey and a 138% increase compared to the first survey conducted in 2014.

Our thanks go to everyone who participated in this survey. We hope not-for-profits find the results useful as they continue to refine their organizations' governance policies and discover new ways to avoid risk.

EXECUTIVE SUMMARY

During a period of record growth for charitable giving, the 2016 CohnReznick Not-for-Profit Governance Survey shows that not-for-profit executives are increasingly less confident in their organizations' governance policies. 2016 survey participants, ranging from board officers to senior leadership, reported that their confidence level in their organization's governance practices was 59% ("very confident"). This is down significantly from the 76% confidence level this survey first reported in 2014.

Additional key findings from the survey include:

- Roughly one-third (35%) of not-for-profit boards have conducted a self-assessment this year, down by almost 10% from 2015.
- About half of the organizations surveyed have not completed a cyber-risk assessment in the past year and, overall, risk assessments continue to remain a low priority with 40% of those surveyed reporting they have never conducted one.
- Only about one-third (29%) of the organizations surveyed have conducted a cybersecurity vulnerability assessment to assess their technology exposure.
- Two-thirds (66%) do not plan to increase their spending on data security despite their concerns.
- Forty-three percent of the organizations surveyed do not have a plan in place to deal with a reputational crisis. Another 18% are "unsure" they have such a plan in place.
- While 1 in 10 organizations reported fraud over the past year, one-third of audit committees do not monitor whistleblower complaints.

Overall, governance and risk issues are still among the top concerns for leaders of not-for-profit organizations. However, the survey clearly indicates that many organizations can take further steps toward improving their risk management practices.

Kelly Frank

Kelly Frank, CPA, CGMA
Partner
Not-for-Profit and Education
Industry Practice Leader
kelly.frank@cohnreznick.com

John Alfonso, CPA, CGMA
Partner
Not-for-Profit and Education
Industry Practice
john.alfonso@cohnreznick.com

RESPONDENT PROFILE

1,571,056

The number of charitable organizations in the United States as of April 2016.*

Geography

Respondents to the 2016 CohnReznick Not-for-Profit Governance Survey were located in 30 states throughout the U.S. with 60% coming from the Northeast, 17% from the Mid-Atlantic, 14% from the West Coast, and 9% coming from the Midwest and South.

Job Title

Approximately 46% of respondents reported that they **held a title** with financial responsibility—such as chief financial officer, controller, director of finance, vice president of finance, or similar. Another 32% noted the title of chief executive officer, president, or the equivalent of their organizations, and 12% are of the executive director or other organizational management level. The remaining percentages were board members, other organizational staff, and other titles within the not-for-profit community.

Organization Type

When asked about their **type of organization**, most respondents placed themselves into many different sub-groups. A large concentration was in voluntary health and welfare, social service, and professional or trade associations. Versus prior surveys, a smaller percentage of respondents were from the healthcare and educational (higher education, independent schools) sectors in the 2016 survey.

Figure 1. What position in your organization do you currently hold?

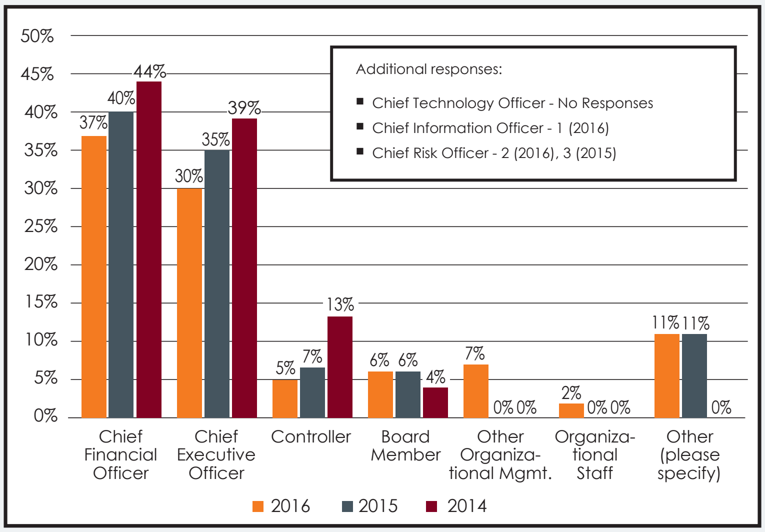
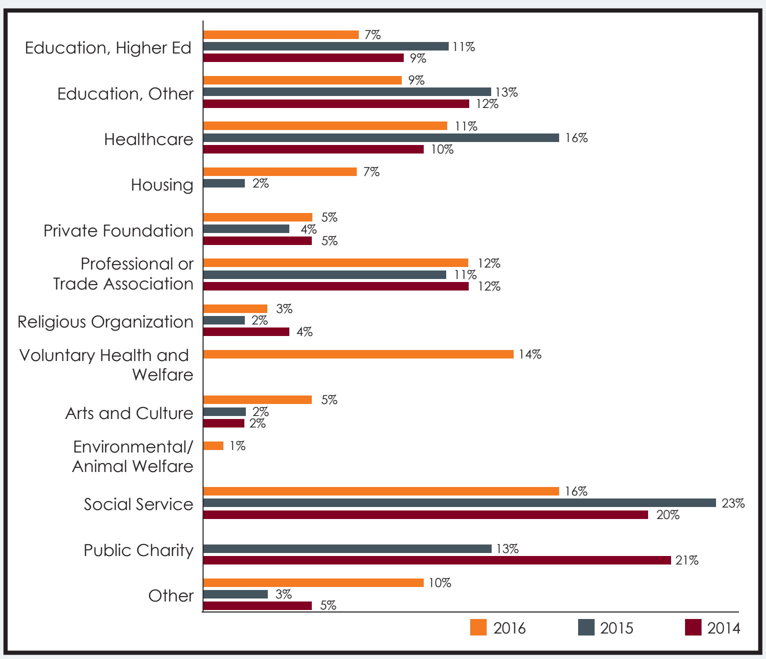


Figure 2. Which of the following best describes your organization?



*National Center for Charitable Statistics, "Quick Facts About Nonprofits," http://nccs.urban.org/statistics/quickfacts.cfm

Fiscal Year-End

When reporting their **fiscal year-end**, we received similar results to past surveys with a slight decrease in the overall percentages (7%) as in prior years with 51% indicating a June 30 year-end, while holding steady at 33% of respondents reporting a December 31 fiscal year-end. Versus prior surveys, there was a slight increase in the number of organizations reporting that they had "another" year-end (March 31, June 30, September 30, or December 31), as well as April, May, or August fiscal year-end closes.

Revenue Trends

While there was a very small increase in respondent organizations that noted a 5% or greater increase in **revenues over the last year**, there was also a decline of 8% for organizations reporting an increase of between 1-5% overall. We noticed a corresponding increase on the opposite end, with a small increase in respondent organizations reporting revenue declines of between 1-5% and greater than 5% over the last year.

Total organizational revenues were consistent with our 2015 and 2014 surveys. 57% of respondents reported revenues within the $1–$25 million range. In addition, respondent organizations reporting revenues in the $25–$50 million range, and the $50–100 million range were similar to past years. There was a slight decrease in those organizations with revenues greater than $100 million (3%), as well as a slight increase in organizations reporting revenues of less than $1 million (4%).

Figure 3. Please tell us the date of your last fiscal year end.

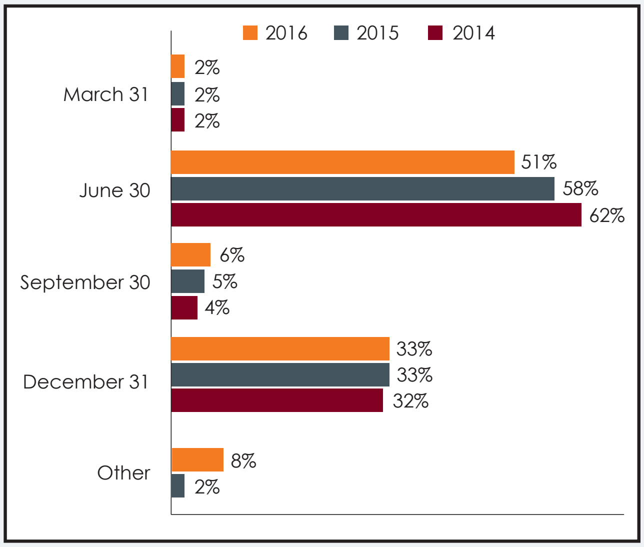


Figure 4. What was the change in total revenue (other than investment income) for your organization in the last fiscal year?

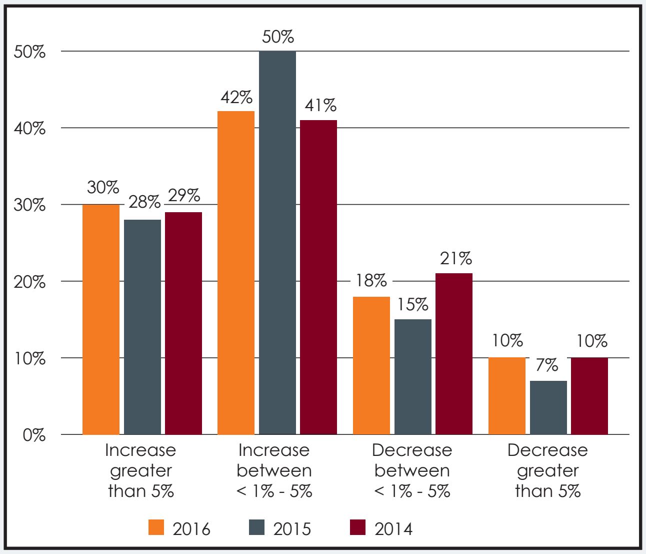
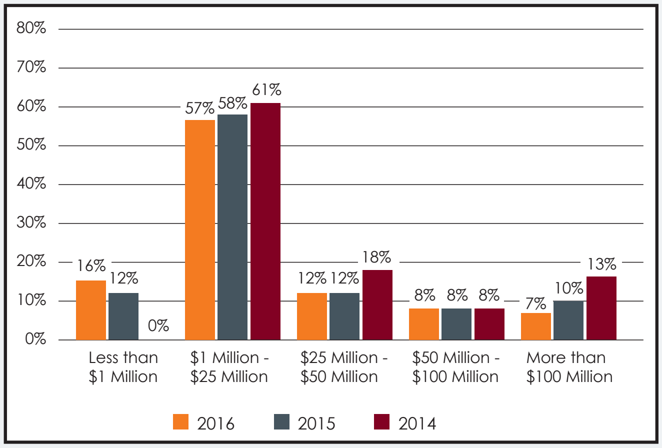


Figure 5. What was your annual revenue in the last fiscal year?



GOVERNANCE

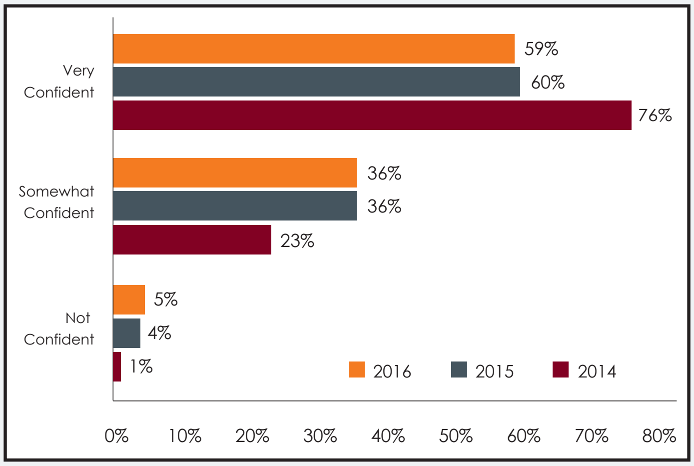
CONFIDENCE LEVEL

Just 59% of the respondents noted that they are **very confident in their organization's governance practices**. While this is a decrease of only 1% compared to the 2015 survey, it represents a 17% decrease over the 2014 survey. This trend indicates that organizations continue to feel less confident about their governance practices year-over-year.

We believe this is due to many factors including rapid growth, mounting concerns about cybersecurity, and fewer organizations training their board members on the topic of governance practices (to be discussed later in this report). Not-for-profits may also be taking note of governance as a hot topic in the media, and many have become aware of the possibility of their own unconscious inattention. For this reason, we believe organizations are now being forced to focus more closely on their governance practices, and may be reassessing their level of confidence as compared to prior years. "Our bigger concern is that we're seeing multiple indications that organizations should revisit their overall governance practices, rather than just looking at it one element at a time," explains John Alfonso, CPA, CGMA, Partner in the CohnReznick Not-for-Profit ad Education Industry Practice and the Practice's New York Office Leader.

We will come back to this point later in the report, but it is also worthwhile to note that organizations that said that they were "somewhat confident" stayed flat as compared to 2015. Those reporting that they are "not confident" increased by 1% compared to the 2015 survey.

Figure 6. Overall, how confident are you in your organization's governance practices?



> "Our bigger concern is that we're seeing multiple indications that organizations should revisit their overall governance practices, rather than just looking at it one element at a time."

John Alfonso, CPA, CGMA, Partner in the CohnReznick Not-for-Profit and Education Industry Practice and the Practice's New York Office Leader

POLICIES AND PROCEDURES

Figure 7. Does your organization have a written whistleblower policy?

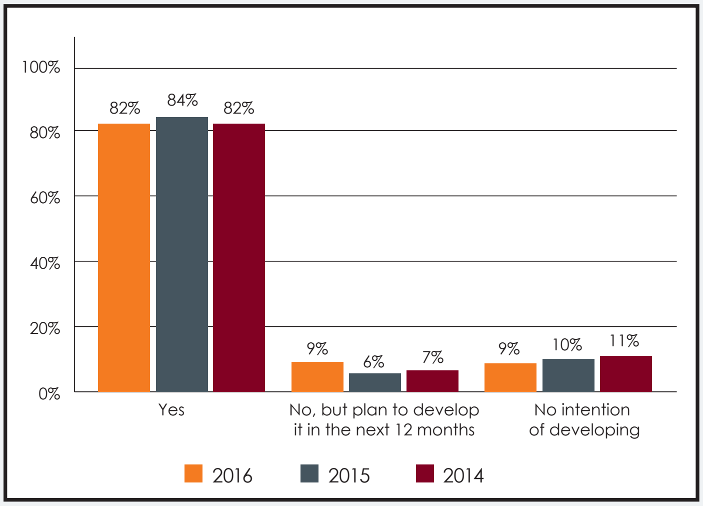
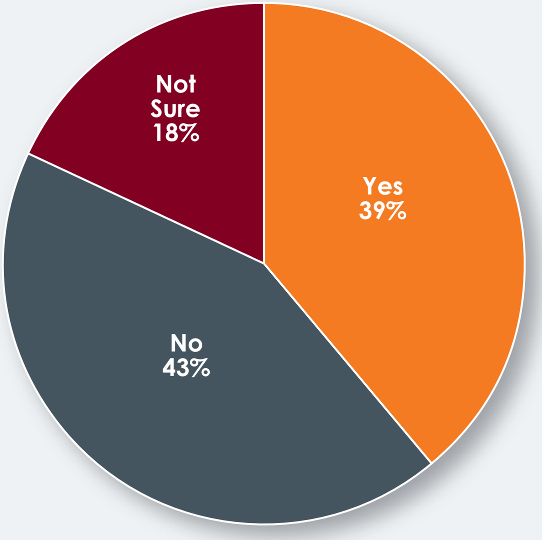


Figure 8. Does your organization have a plan in place to deal with a reputational crisis?



In this next section we asked questions about our respondents' policies and procedures related to governance.

The section began with questions pertaining to whether or not **the respondents' organization has a written whistleblower policy**. A resounding 82% of respondents said "yes," which holds fairly steady compared to 2015 and 2014. However, the remaining 18% were split right down the middle, with 9% reporting that they don't have a whistleblower policy, but plan to develop one in the next 12 months, and 9% stating that they have no intention of developing one at all. For organizations without a whistleblower policy, we have a major concern. Developing a whistleblower policy is an easy way for organizations to reduce the risk of fraud. The *2016 Report to the Nations*[1] noted, yet again, that "Whistleblowers were most likely to report fraud to their direct supervisors (20.6% of cases) or company executives (18%)." Also mentioned in the report is the fact that the #1 method of detecting fraud was through a tip.

We continued the discussion about the potential for a **reputational crisis**, and whether or not the responding firms have a **plan in place to deal with such an issue**. We were surprised to find that more than half—61%—either do not have a plan or are not sure if they have one. "We've seen many not-for-profits in the press in the last few years dealing with reputation crises that could have been avoided," says Kelly Frank, CPA, CGMA, Partner and Not-for-Profit and Education Industry Practice Leader. "An organization's reputation is one of its most valuable assets. We believe it is imperative for organizations to have a plan in place to deal with a reputational crisis and to realize that such a crisis can, in fact, happen to them."

[1]2016 Report to the Nations on Occupational Fraud and Abuse. Copyright 2016 by the Association of Certified Fraud Examiners, Inc, (Page 21, Figure 38)

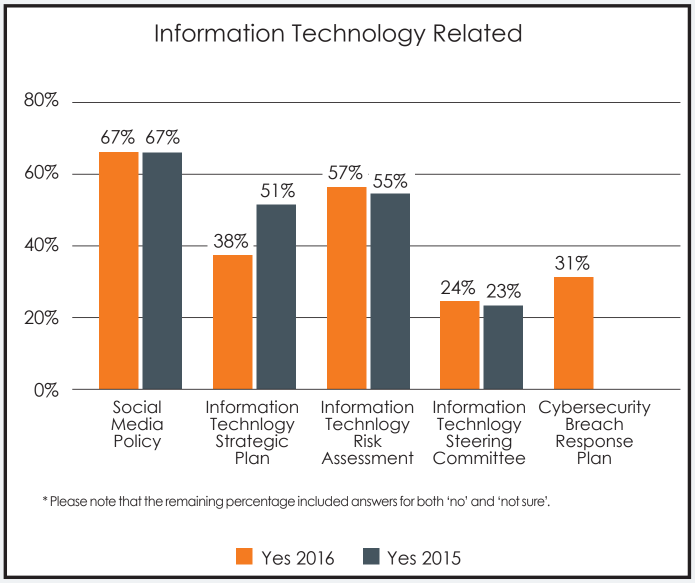
To quote Benjamin Franklin, "If you fail to plan, then you plan to fail." Organizations work for years to develop a solid reputation within their community, whether it's local, regional, or national. Without a formalized reputational crisis plan in place, one rumor, regardless of whether or not it's true, can send an organization into a tailspin. In addition, this plan should be reviewed and updated at least annually to ensure that it still applies after the ebbs and flows of the last year.

In our next question, we asked organizations to share information about the various **policies they currently have in place**. We then took that data and broke it down into those policies that are technology related and those that are not.

On the technology related side, 67% of respondents noted that they have social media policies in place, which is consistent with 2015. We also saw fairly consistent numbers with organizations that have conducted information technology risk assessments (57% in 2016 vs. 55% in 2015) and have information technology steering committees (24% in 2016 and 23% in 2015). We did see a 13% drop in organizations reporting that they have an information technology strategic plan going from 51% in 2015 to 38% in 2016, which was surprising. 31% of respondents also reported that they have a cybersecurity breach response plan in place. This was the first year we've asked about such a plan.

> "If you fail to plan, then you plan to fail."
>
> Benjamin Franklin

Figure 9. Please click yes, no, or not sure below to show which of the following your organization has in place



We can't stress enough that having plans in place to deal with cybersecurity issues is imperative.

Figure 10. Please click yes, no, or not sure below to show which of the following your organization has in place

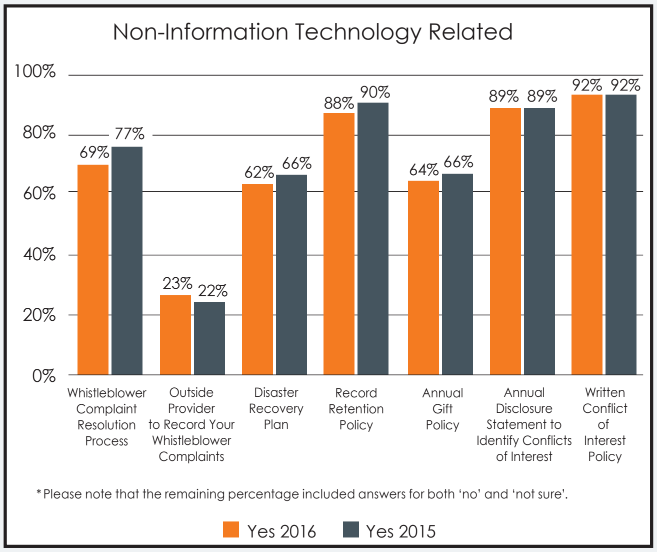
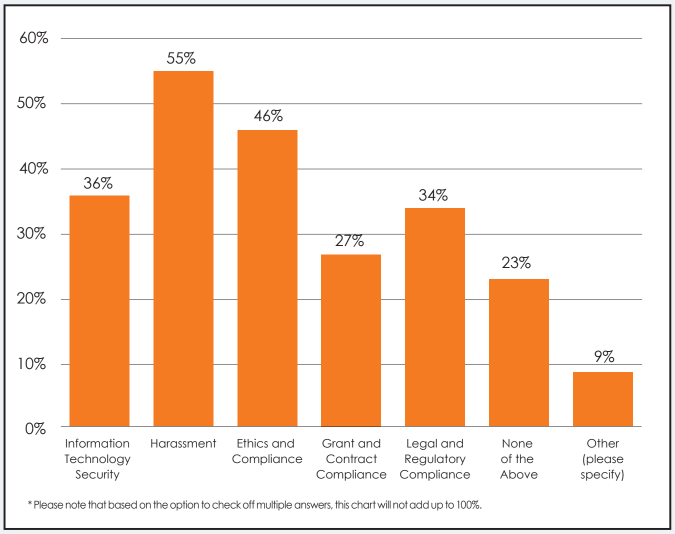


Figure 11. Has your organization conducted training for its employees on any of the following topics in the past year? (Please check all that apply)



We can't stress enough that having plans in place to deal with cybersecurity issues is imperative. When a breach or other issue hits, there will likely be no warning and no time to devise and implement a proper response. Please make the time now to put a plan together and have it reviewed by individuals with the necessary expertise.

For those **governance policies that are not information technology related**, we saw similar responses in both the 2016 and 2015 surveys across the board, with the exception of an 8% decrease in 2016 for organizations that have a whistleblower complaint resolution processes in place, and a 4% decrease in organizations with disaster recovery plans. All of the other policies discussed within this survey question were consistent with last year's survey or within 2%. These topics included those using an outside provider to record their whistleblower complaints (23% in 2016 and 22% in 2015); those with a disaster recovery plan (62% in 2016 and 66% in 2015); those with a record retention policy (88% in 2016 and 90% in 2015); an annual gift policy (64% in 2016 and 66% in 2015); an annual disclosure statement to identify conflicts of interest (consistent at 89%); and a written conflict of interest policy (consistent at 92%). Please note that we attempted to simplify this chart, and so the remaining percentages for each of these questions refer to answers for both 'no' and 'not sure'.

Moving further through the survey, we asked respondents if they had **conducted training for any of their employees on any of the following topics In the past year** including information technology and security, harassment, ethics and compliance, grant and contract compliance, legal and regulatory, etc. We found that many organizations are not conducting training in several key areas for either their staff or their board members, which we will discuss later in the survey. Sixty four percent of respondents indicated that they do not train their employees on information technology security. "The concern here is that we're not only seeing a decrease in organizations having an information technology strategic plan, we are also seeing low numbers being reported [just 31%] for respondents whose organizations have a cybersecurity breach response plan (Fig. 9). On top of this, a high percentage of organizations do not train their employees on the subject of information technology security," says Alfonso.

"These findings should be a major concern for not-for-profits in terms of their overall security, including their ability to prevent and detect fraud," continued Frank. "Even though these are technology-based areas of concern, the errors, as well as those who would exploit them, involve people. Therefore, training those people is an organization's best avenue of defense." It should be mentioned that the Association of Certified Fraud Examiners 2016 *Report to the Nations on Occupational Fraud* revealed that of the cases of fraud that they have reviewed, 10.1% were not-for-profit organizations.[2]

We specifically asked organizations how **concerned they are about cybersecurity**. It is interesting to note that 77% of the respondents place cybersecurity within the top 10 or top 3 of all risk concerns (Fig. 36). However, many are not conducting the training needed for their organizations to mitigate their risks.

Further, 45% of respondents stated that they are not conducting harassment training, 54% are not conducting ethics and compliance training, and 66% are not training their staff on legal and regulatory compliance issues. All told, almost one-quarter of the respondents reported that they are not training their employees in any of these areas.

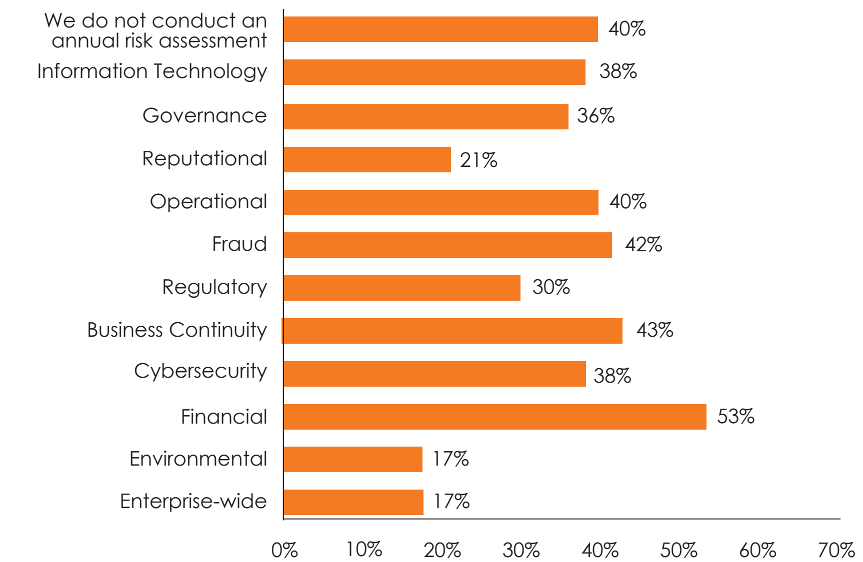
[2]2016 Report to the Nations on Occupational Fraud and Abuse. Copyright 2016 by the Association of Certified Fraud Examiners, Inc, (Page 21, Figure 38)

Each of the training areas queried in the survey can lead to legal implications for any not-for-profit organization. And a legal matter can have an ominous effect on the organization, its donors, students, and any others who might have involvement with the organization.

The survey then asked about an organization's **annual risk assessment processes**. The responses show that these processes had some room for improvement. For instance, 62% of the respondent organizations are not involved with planning for issues that may arise from information technology, governance (64%), and reputational crises (79%) (also mentioned in Fig. 8), operational risks (60%), fraud detection (58%), regulatory (70%), or business continuity (57%). The survey also shows that 62% are not anticipating issues with cybersecurity, and 83% are not anticipating issues related to environmental or enterprise-wide risks. On the positive side the survey did show that more than half of the respondents are considering overall financial risks in their annual assessment process. With that being said, we believe that their organizations need to think of all of the risk areas mentioned above in terms of "financial risk." For example, properly anticipating and responding to business continuity issues, such as those after a natural disaster, can be invaluable to an organization. Conversely, a reputational crisis that is not handled immediately, and properly, can divert key resources away from necessary projects for weeks or even months. This can result in the loss of contracts or revenue from fundraising events, for example. A cybersecurity or reputational crisis can bankrupt an organization that is not properly prepared. A perfect example of this is a university hack that occurred earlier this year, where 63,000 social security numbers were stolen via a hacked computer system.[3]

[3]James Eng, NBC News, "University of Central Florida Hack Exposes 63,000 SSN," http://www.nbcnews.com/tech/security/university-central-florida-hack-exposes-63-000-ssn-n511366 (February 4, 2016)

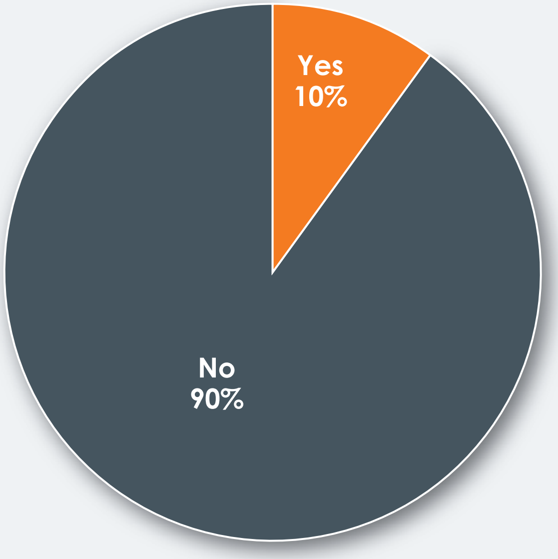
Figure 12. Does your organization's annual risk assessment process contemplate any of the following risks? (Please check all that apply)



* Please note that based on the option to check off multiple answers, this chart will not add up to 100%.

The survey then turned to the subject of fraud when we asked the question, **"Has a fraud occurred in your organization in the last 12 months?"** Fortunately, 90% of respondents answered 'no.' However, it is important to note two important factors related to this question. First, it only asked about fraud that has occurred in the last 12 months. Moreover, it is possible that the individual responding to this question may not have been aware if an instance of fraud had occurred.

Figure 13. Has a fraud occurred in your organization in the last 12 months?



Fraud comes in many forms and sizes—from fraud based on skimming, improper expense reimbursements, and check tampering to all-out financial statement fraud and corruption. And not-for-profits are ripe for fraudulent activity involving these, and many other types of fraud. The 2016 Association of Certified Fraud Examiners (ACFE) *Report to the Nations on Occupational Fraud and Abuse*[4] reveals that check tampering, billing, and expense reimbursements were the 'schemes' used in 25% of all fraud cases reported by religious, charitable, or social service organizations. Educational institutions reported that check tampering and improper expense reimbursement activities accounted for 7.6% and 15.9% of their fraud cases, respectively. However, healthcare organizations reported that 14.6% of their fraud cases involved check tampering and 20.1% involved fraudulent expense reimbursement.

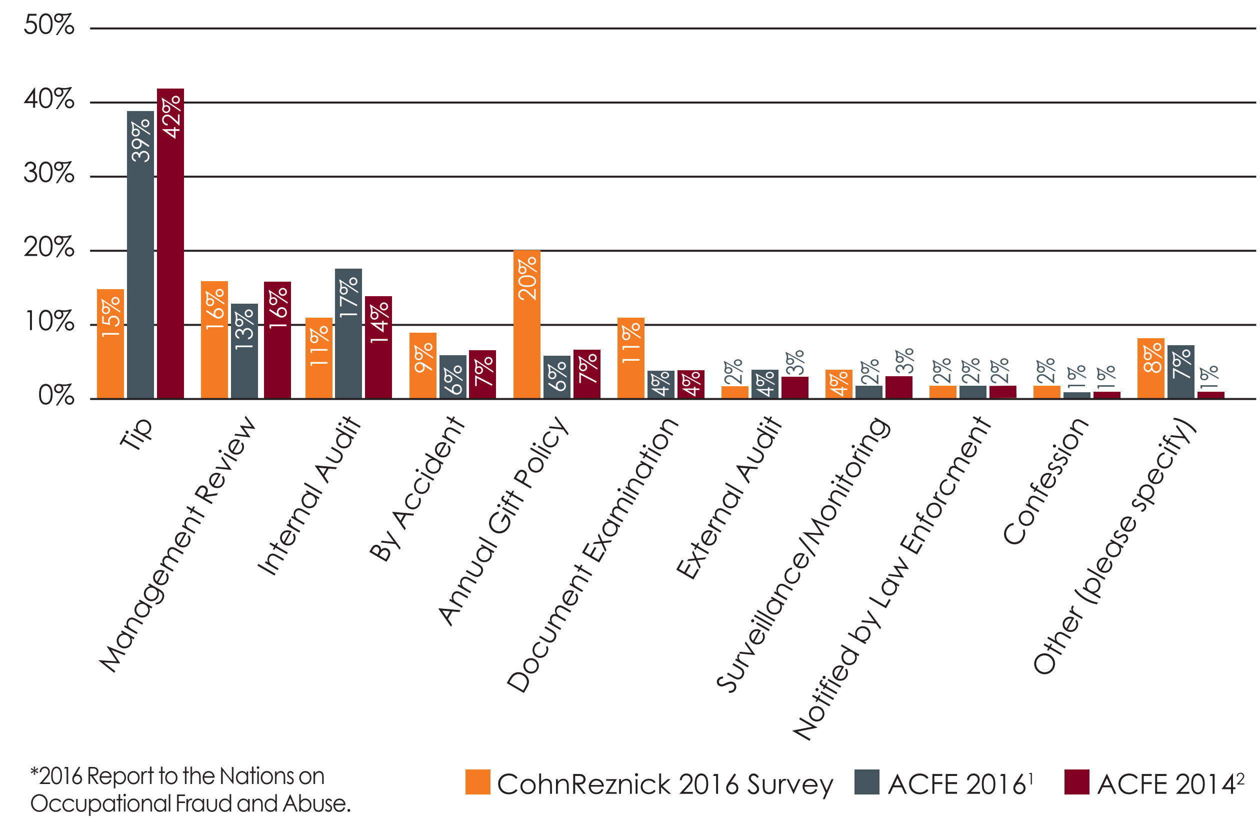
The ACFE report also mentioned that, along with these two types of fraudulent activities, educational institutions saw a spike in corruption at 31.8% of fraud cases with billing malfeasance at 34.1%. The healthcare sector saw a similar spike with 30.6% of their fraud based on corruption, and 31.3% on billing malfeasance. In the end, there are two considerations to bear in mind: (1) committing an act of fraud is not an accident—it is deliberate; and (2) whatever the motivation may be, in the end, there is always a person (or persons) at the controls.

The survey dug a bit deeper into the topic of fraud, asking respondents who had been subjected to fraud the question about how **it was detected**. Today, fraud can be detected through many different avenues, including tips and monitoring. Top responses to this question included a document examination (20%), a management review (16%), or through a tip (15%).

[4]2016 Report to the Nations on Occupational Fraud and Abuse. Copyright 2016 by the Association of Certified Fraud Examiners, Inc, (Page 36, Figure 45)

> “The report findings should be a major concern for not-for-profits in terms of the overall security, including their ability to prevent and detect fraud.”
>
> Kelly Frank, Not-For-Profit and Education Industry Practice Leader

Figure 14. If you answered yes to the question in Figure 13, please indicate how the fraud was detected.



*2016 Report to the Nations on Occupational Fraud and Abuse.
Copyright 2016 by the Association of Certified Fraud Examiners, Inc, (Page 21, Figure 38)
[1]2016 Report to the Nations on Occupational Fraud and Abuse.
Copyright 2016 by the Association of Certified Fraud Examiners, Inc, (Page 22, Figure22)
[2]2014 Report to the Nations on Occupational Fraud and Abuse.
Copyright 2014 by the Association of Certified Fraud Examiners, Inc, (Page 19, Figure 11)

The survey asked whether **the organization's audit committee monitors disclosed conflicts of interest**. There was an 11% jump in "yes" responses versus the 2015 survey. However, we are still only seeing 62% of organizations who are taking this step. Best practices show that, overall, audit committees normally review conflicts of interest, but we understand that another committee of the board may handle this responsibility. What we want to get across is that it is imperative that this is reviewed by either the board or another committee.

The survey further asked respondents to **identify from whom they obtain annual conflict of interest disclosure statements**. Responses were similar to those in the 2015 survey. Overall, 89% of respondents reported that they obtain them from the members of the board, which was expected, but also indicated a slight drop (5%) from last year's survey. At the same time, 63% reported that they obtain disclosure statements from their management team, which held steady from the prior year. 31%, up slightly from 29% in 2015, obtain them from employees other than management. Interestingly, only 5% noted that they also collect conflict of interest disclosure statements from vendors. 8% of respondents advised that they collect conflict of interest disclosure statements from all of the aforementioned.

CohnReznick suggests erring on the side of caution, and obtaining conflict of interest disclosure statements from those vendors who could have a significant impact on your organization.

Figure 15. Does your organization's audit committee monitor disclosed conflicts of interest?

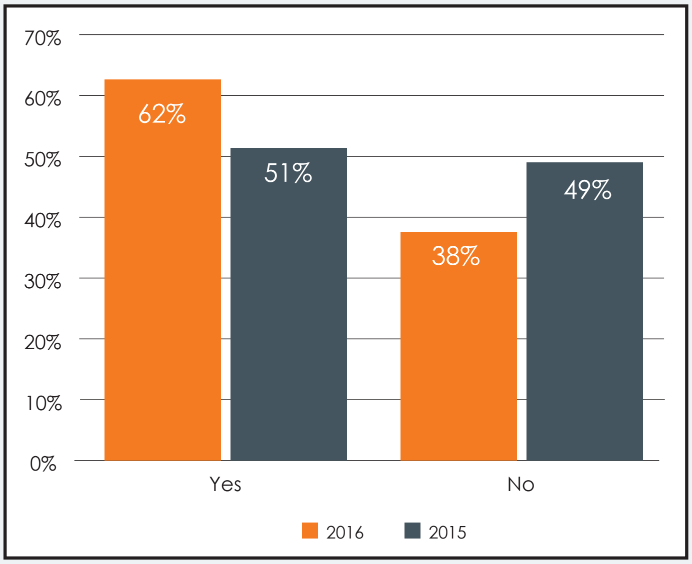
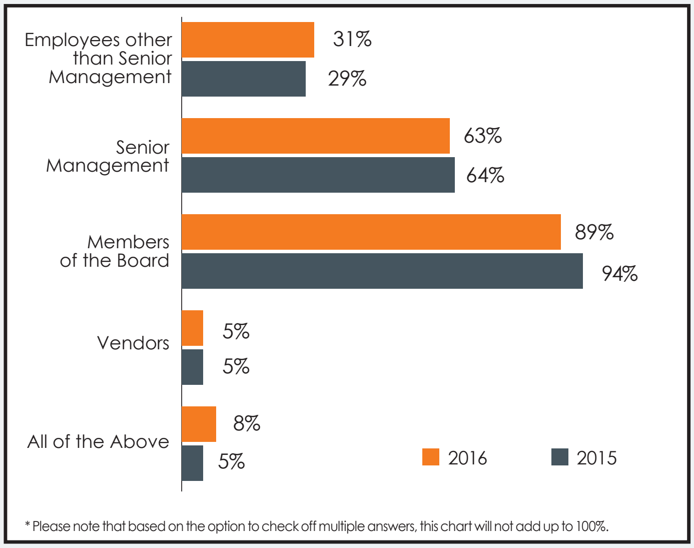


Figure 16. Please identify the parties from whom you obtain annual conflict of interest disclosure statements. (Please check all that apply)



BOARDS AND DIRECTORS

Figure 17. What is the size of your board?

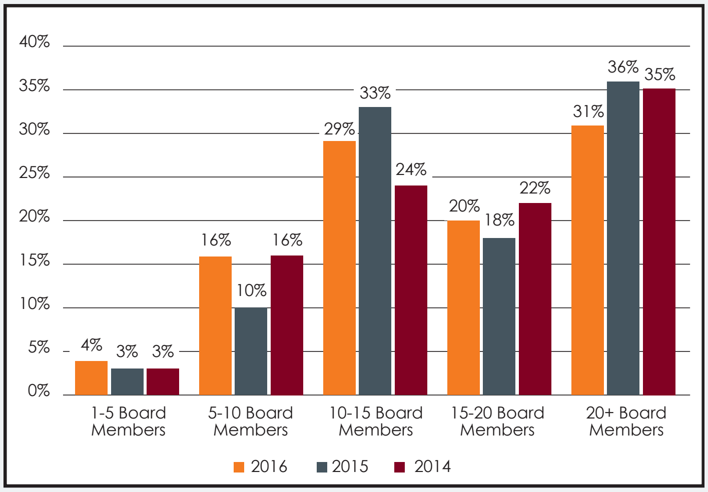
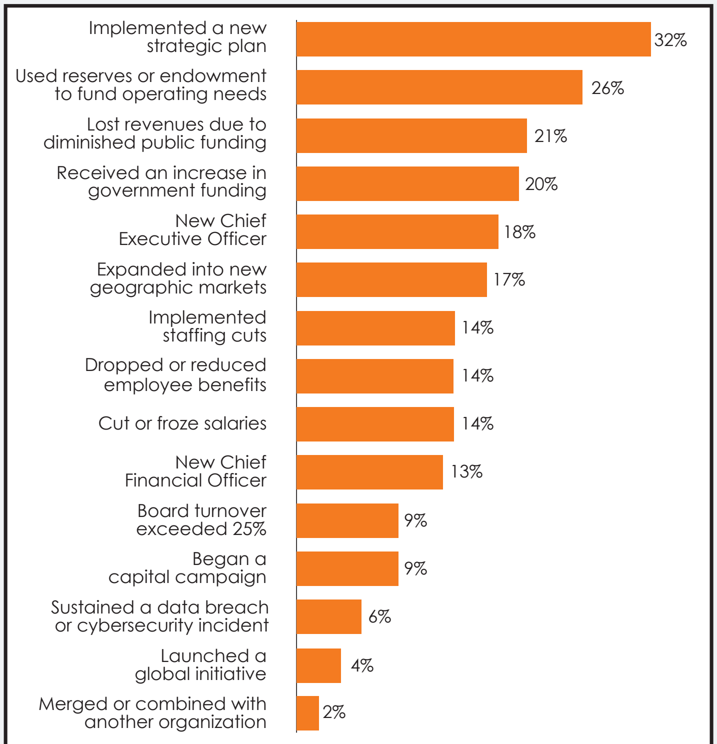


Figure 18. Have any of the following occurred in your organization in the past year? (Please check all that apply)



* Please note that based on the option to check off multiple answers, this chart will not add up to 100%.

When asked about the **size of their board**, 80% of respondents reported having between 10 and over 20 board members, with responses broken out as follows: 20 or more board members (31%), 15–20 board members (20%), 10–15 board members (29%). Each of these size breakouts saw a slight change from the 2015 and 2014 surveys. CohnReznick has seen a trend in the market that indicates not-for-profit organizations are moving toward leaner boards. The 2016 survey does not necessarily confirm this point. While respondents reported a 5% decrease in boards with 20 or more members, and a 4% decrease in those with 10-15 board members versus 2015, they also reported a 2% increase in boards composed of 15-20 board members, and an increase of 6% and 1% of boards between 1-5 and 5-10 board members respectively.

This year, we decided to pose a question about significant life events within our responding organizations. We asked, overall **if any of the following [events] occurred in your organization in the past year**. While we won't go into the detail of every event, these "life events" did include merging or combining with another organization (2%), hiring a new chief financial officer (13%), receiving an increase in government funding (20%), and using reserves or an endowment to fund operating needs (26%). We found it intriguing that while 20% saw an increase in government funding, an almost equal number (21%) stated that they lost revenues due to diminished public funding. In addition, we saw that 9% of the organizations experienced board turnover by more than 25%. Another notable observation is that 6% of the responding organizations indicated that they had sustained a data breach. This is something we will discuss later in our section on cybersecurity.

In the previous paragraphs we discussed trends showing that organizations may be moving to leaner boards in order to streamline their decision-making. In this section, we asked **if their board has reduced its size the last year**. Overall, 9% of respondents with either of 10-15 members or 20 or more board members have reduced their board sizes. However, 88% of the organizations responded that they have not reduced the size of their boards.

With the expansion of the Internet of Things into every aspect of our lives, we thought the subject of electronic voting warranted coverage, especially with the upcoming Presidential election. We weren't surprised to find that almost half of the respondent **organizations' bylaws** do not **allow for electronic voting.** While 46% do not offer electronic voting at all, 34% do offer electronic voting for all resolutions, and another 20% offer it for certain resolutions.

We believe that electronic voting options can be used to not only streamline processes, but as a valuable recruiting tool when speaking with potential board members. There are times when board members are not able to attend a meeting in person. Without a quorum, an organization cannot vote on specific agenda items, such as the budget, large events, new staff, new board members, and other larger issues. Making electronic voting an available option can take some of the pressure off a not-for-profit and its board members, allowing the board to vote when needed and thus continuing to help the organization look ahead. However, organizations should consult their legal counsel to ensure compliance with applicable laws.

When we asked respondents if their **board members have term limits**, we found that 72% do. This is consistent with last year's survey. We then asked, **"Of the organizations that answered yes to the first question, are those term limits exclusive to the board officers?"** Interestingly, the term limits were not strictly for the officers in 74% of the cases.

Figure 19. Trends are showing organizations favoring leaner boards in order to streamline their decision making. Has your board reduced its size in the last year?

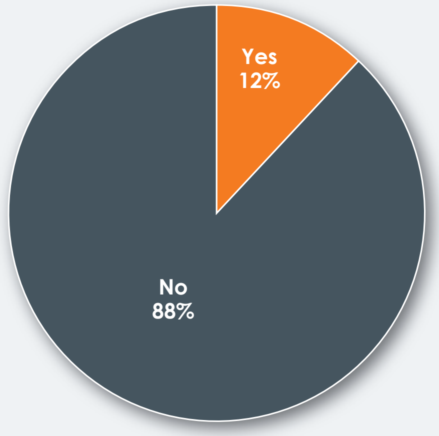


Figure 20. Do your bylaws allow for electronic voting?

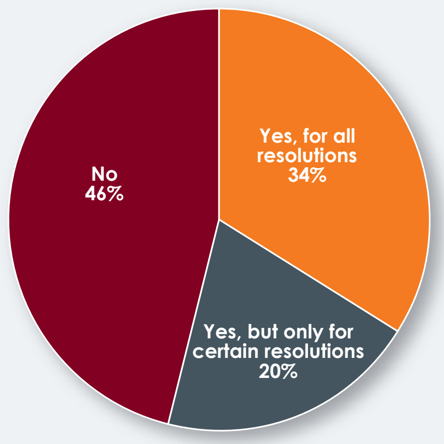


Figure 21. Do your board members have term limits?

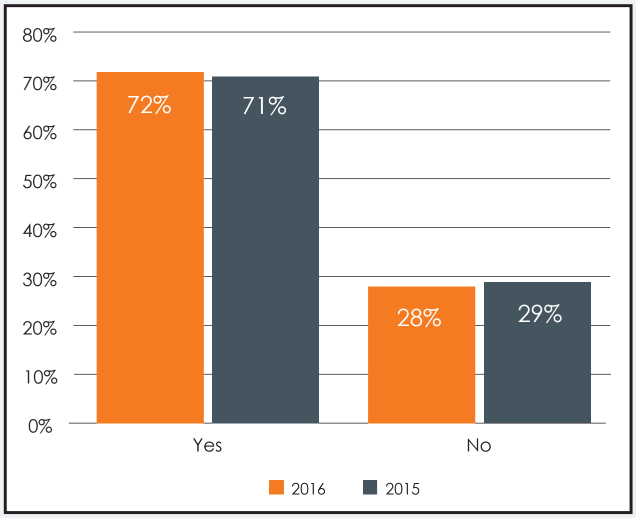


Figure 22. If you answered yes to the question above, are these term limits only for board officers?

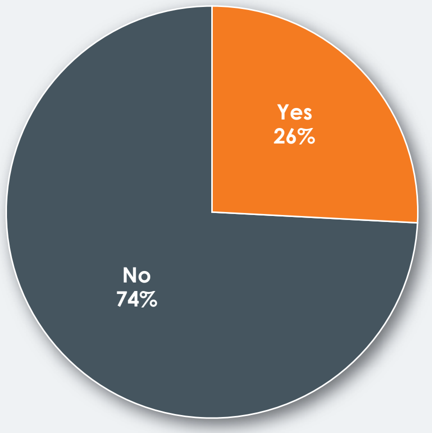


Figure 23. Have you conducted a board self-assessment in the past year?

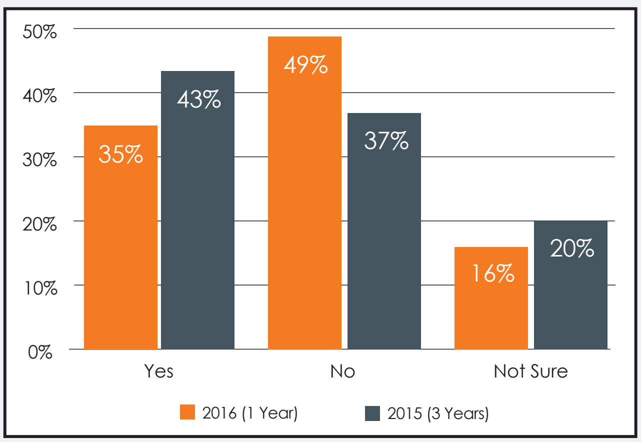
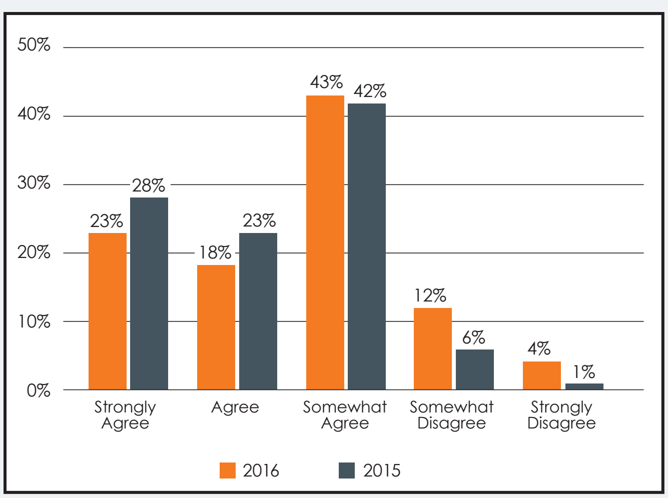


Figure 24. Do you feel that your board members have a working knowledge of the organization's governance policies?



There are many reasons why boards should have terms limits. These included fundraising, engaging new talent and a new perspective, allowing younger members to join the board, and even rotating out less productive board members.

Conducting a board self-assessment is a critical step when evaluating your board's performance in an effort to improve and streamline processes and procedures.

CohnReznick recommends conducting a board self-assessment at least every three years, although an annual self-assessment is ideal.

When our survey respondents were asked **if they had conducted a board self-assessment in the last year**, 35% had, 49% had not; and 16% were not sure. Fig. 23 shows a comparison of this year's survey data versus last year's. We should point out that, in the 2015 survey, we asked if respondents had conducted a board self-assessment in the last 3 years, versus in the last year for the 2016 survey.

When respondents were asked if their **board members have a working knowledge of the organization's governance policies**, we found that 2016 survey responses were similar to those in the 2015 survey. Overall, only 23% strongly agreed that their board members possess this knowledge, while another 18% agreed. In addition, in both cases we saw an additional 5% decline over the 2015 survey results. There was a slight (1%) increase in those organizations stating that they somewhat agree, and an increase (6% and 4%, respectively) in organizations reporting that they either disagree or strongly disagree. This could be the result of board turnover, as mentioned in Fig. 18.

We asked respondents if **their board requires an annual contribution from its directors**. Overall, 40% of respondents answered that they do require a contribution. This is up by 4% over 2015. At the same time, we saw a 4% decrease in those boards that do not require such a contribution. With that being said, of those who responded ‘yes’ to the first question, 27% stated that they **require a minimum contribution** of $1,000 or less, while another 18% indicated a minimum contribution of between $2,000 and $10,000. One percent of responding organizations reported required annual contributions of between $25,000 and $35,000, with the same percentage at the $150,000 per year level. Finally, 51% of respondents reported that they do not have a minimum requirement.

CohnReznick believes that **annual board meetings** offer an ideal opportunity to provide training around a specific **educational component**, helping to ensure that board members are in step with the basic practices of the organization. 2016 survey respondents seem to agree, with 70% offering some sort of educational component during their meetings. This is a slight decrease of 3% over last year.

Figure 25. Does your board require an annual contribution from its directors?

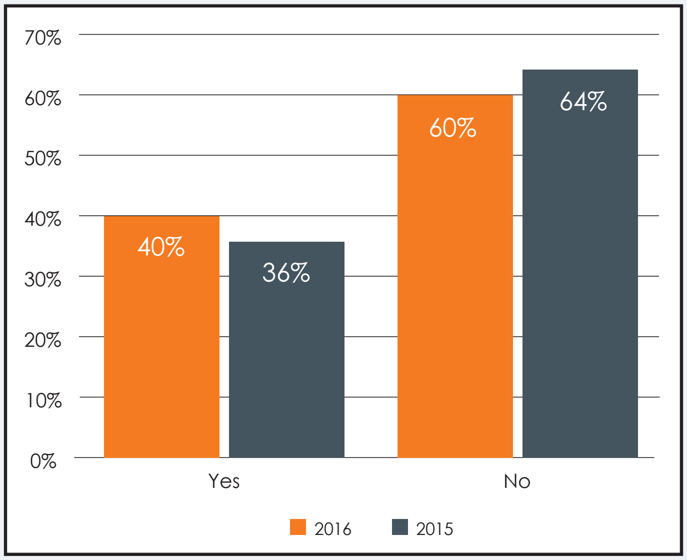


Figure 26. If yes, please state the annual minimum contribution required.

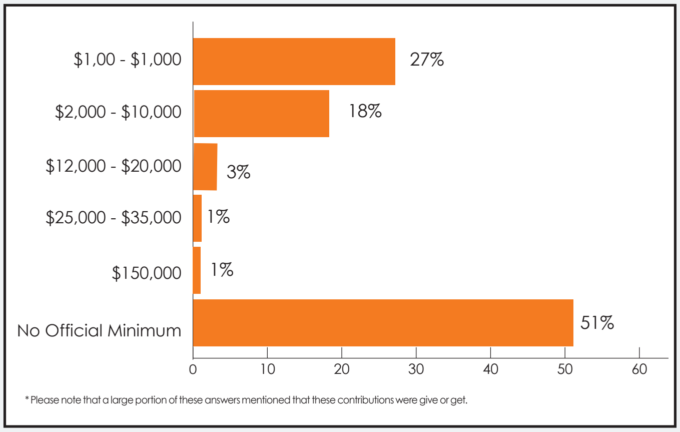
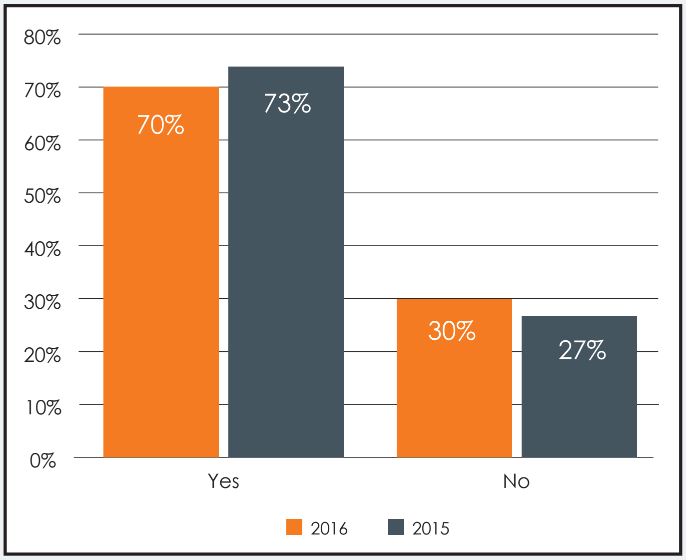


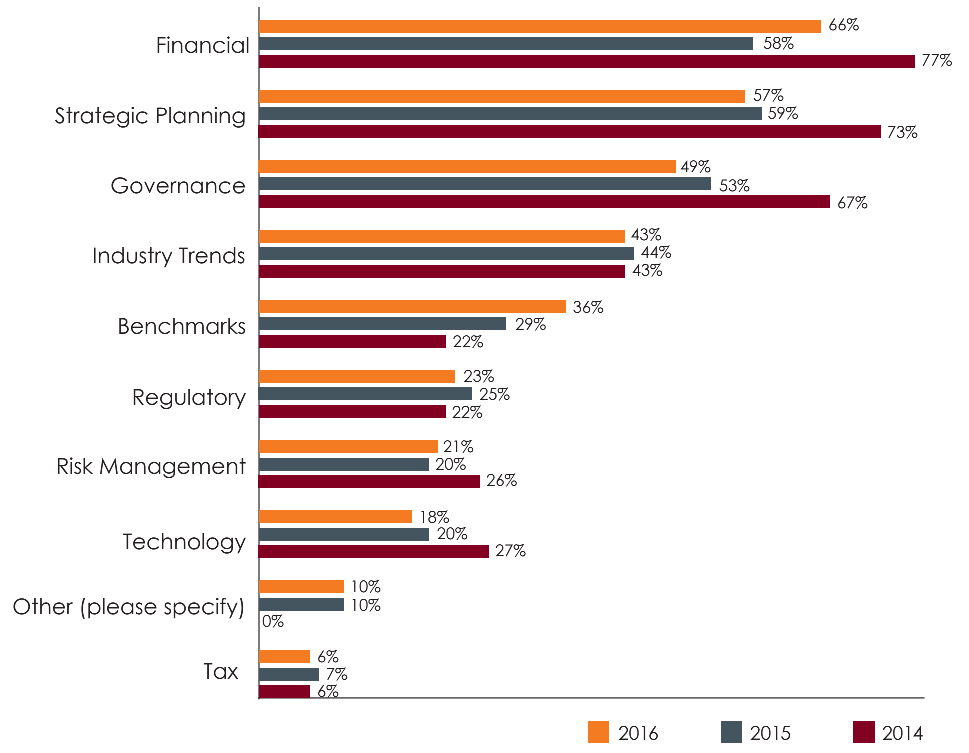
Figure 27. Do any of your annual board meetings contain an educational component?



We were pleased to see an increase in the different types of **educational topics covered during these board meetings**, with an increase in financial (66%) and benchmarking (36%). We saw essentially the same numbers as were noted in last year's survey with regards to strategic planning (57%), industry trends (43%), regulatory (23%), tax (6%), risk management (21%), and "other" trainings (10%). Some of the "other" trainings listed included program expansion, human resources, healthcare, ethics, audit, and grant making.

There were some notable decreases this year in board meetings offering educational programs on governance training (49%), and technology training (18%). This is concerning since the numbers directly correspond to the declining confidence that respondents have in their board members' knowledge of governance policies (Fig. 24).

Figure 28. Which of the following educational topics were covered during your board meetings in your last fiscal year? (Please check all that apply)



* Please note that based on the option to check off multiple answers, this chart will not add up to 100%.

AUDIT AND OTHER COMMITTEES

We have advised not-for-profits to convene a separate **audit committee** within their organizations. Therefore, we were pleased to see that 53% of the respondents do employ a separate audit committee which, we also understand, is not required. And although just over one-third of the respondent organizations reported that they assemble a finance committee to handle both the audit and financial responsibilities, there is a different set of responsibilities for each. In most cases, this also requires a different set of skills for each committee's members. No matter what, the committee members with responsibility for monitoring the audit should not be employed by either the not-for-profit or the independent auditor.

We then asked **how often the audit committee meets** and received the expected response. Overall, 12% of the organizations' audit committees meet monthly, 29% meet quarterly, just under one-quarter meet semi-annually, and 17% meet annually.

When asked about **the size of their audit committee**, we found a fairly even split between the group responding that they have 1-3 members (49%)and those that noted they have 4-6 members (42%). Additionally, in this year's survey, we asked an optional question about which committee members are voting versus non-voting. Overall, most members on the organizations' audit committees are voting members.

Figure 29. Does your board have an audit committee?

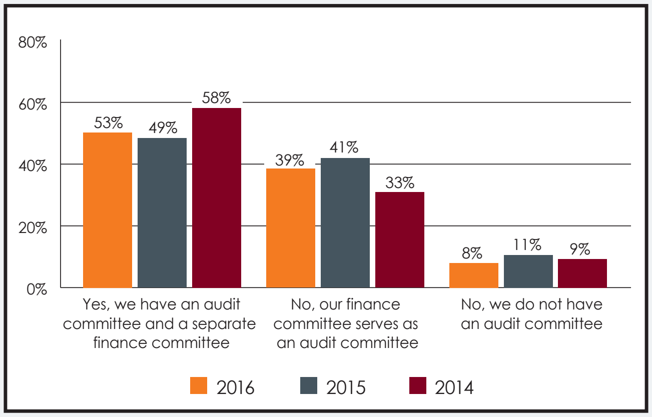


Figure 30. How often does your audit committee meet?

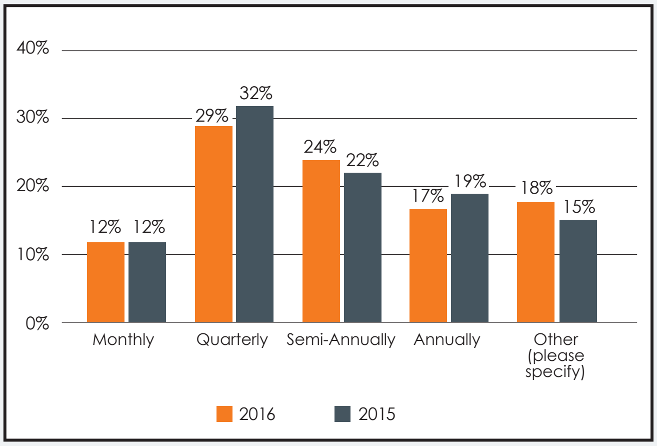


Figure 31. What is the size of your audit committee?

Answer Options	All 2016	2016 Voting Members	2016 Non-Voting Members
1 - 3 Members	49%	64%	36%
4 - 6 Members	42%	94%	6%
6+ Members	9%	94%	6%

Figure 32. Do you have a financial expert on your audit committee?

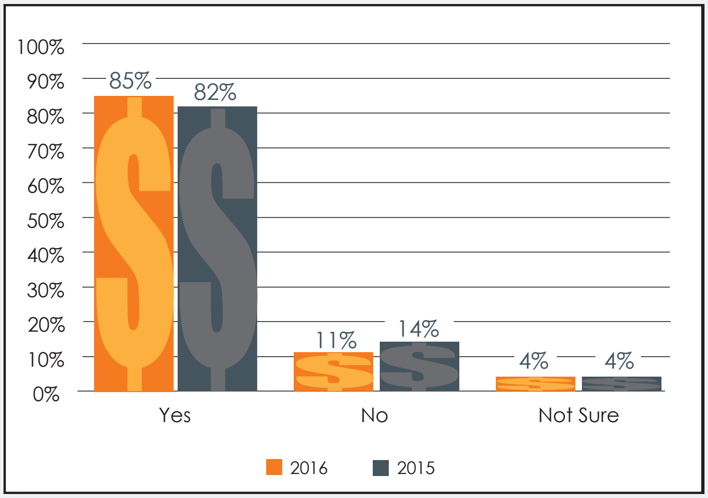
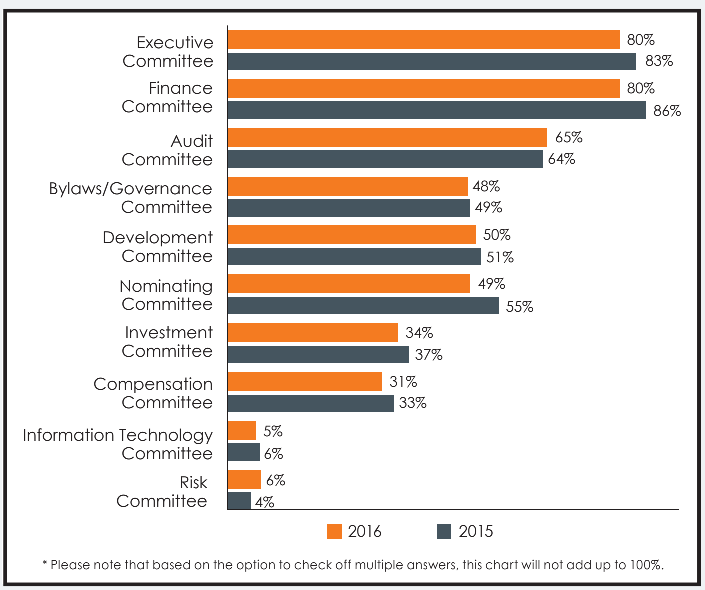


Figure 33. Please indicate if you have any of the following committees of the board. (Please check all that apply)



Eighty-five percent of the organizations, up from 82% in 2015, **have a financial expert on their audit committee**. As mentioned in the 2015 survey and reinforced here, CohnReznick believes it is imperative that not-for-profit organizations appoint a financial expert to their audit committee. If the financial expert has specific experience with audits, he or she will also be familiar with risk assessments and minimization.

Seventy-seven percent of the organizations surveyed indicated that they have **multiple committees within their organization**. Of those with multiple committees, 80% stated that they have an executive committee, down slightly from 83% in 2015. 80% reported having a finance committee, again down slightly from the previous year, and 65% have an audit committee, up by 1% when compared to 2015.

It seems that, while not-for-profit organizations are increasingly concerned about risk, they are not investing in the committees, the training, or the practices to adequately protect their organizations. Just 6% of the respondent organizations have a risk committee, up slightly from the year before. Another 5% have an IT committee, down slightly from 2015. We cannot stress enough that IT and other risk concerns are valid. Not-for-profits should take the time to fully evaluate these concerns and equip the board and its committees to minimize these risks.

Moving on, 56% of the organizations' **audit committees monitor whistleblower complaints** on a case-by-case basis. Overall, we believe that this is probably the most efficient plan of action, assuming that the organization's whistleblower policy is up-to-date and working in the most effective manner.

We were concerned to see that 30%, up from 24% in the 2015 survey, stated that they never review whistleblower complaints.

We ascertained that there is generally an even split between those **organizations that either do, or do not have an audit committee charter**. Overall, 37% of the respondent organizations stated that their audit committees have a charter. This is up 4% from last year's survey but down 15% from the 2014 survey. Almost half of the organizations do not have such a charter, with 18% answering that they were unsure. As we advised in our 2014 survey, we believe audit committees of all not-for-profit organizations should have a charter. The charter acts as a set of guidelines to assist the committee in fulfilling its oversight responsibilities. We also encourage every not-for-profit to review the American Institute of Certified Public Accountants' (AICPA) Not-for-Profit Audit Committee Toolkit, which is available from the AICPA at no charge. In addition, to improve effectiveness, we recommend that each meeting include a formal agenda that outlines the different tasks set forth for each meeting.

Figure 34. How often does your organization's audit committee monitor whistleblower complaints?

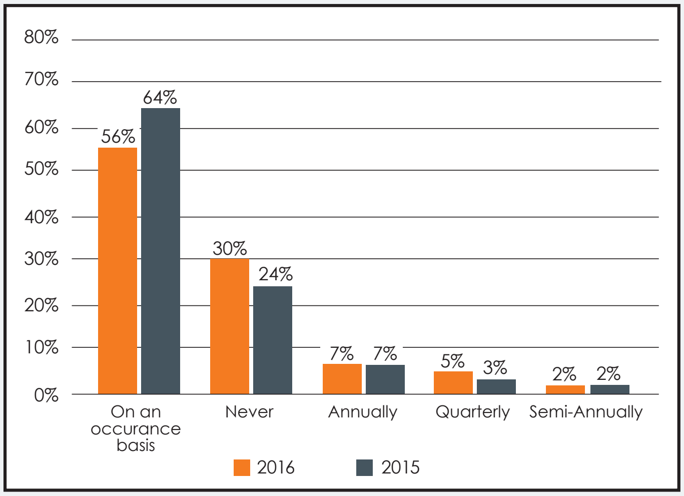
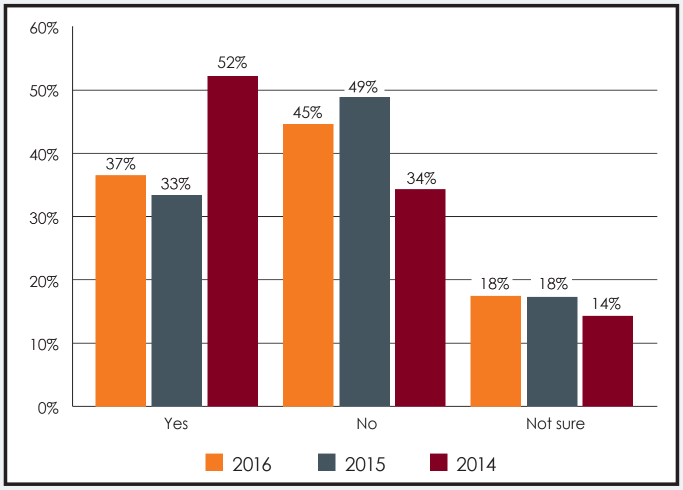


Figure 35. Does your audit committee have a charter?



CYBERSECURITY

Figure 36. How concerned are you about cybersecurity?

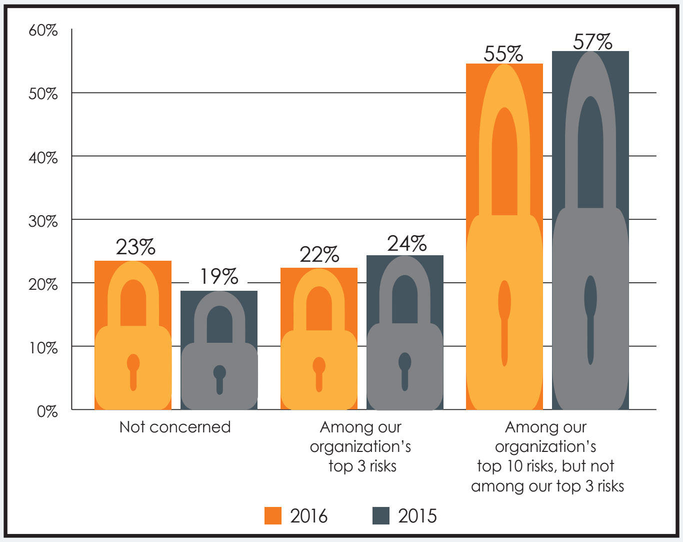


Figure 37. Has your organization performed a cyber risk assessment in the past year?

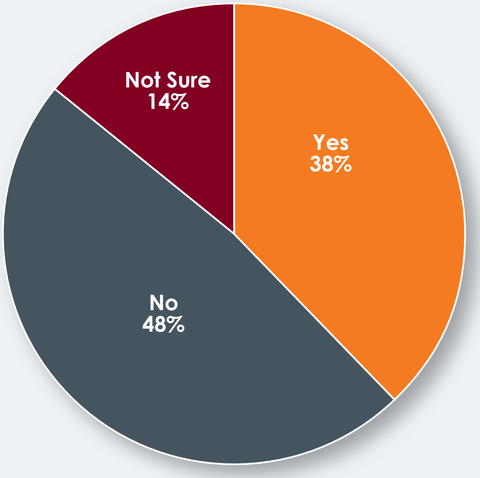
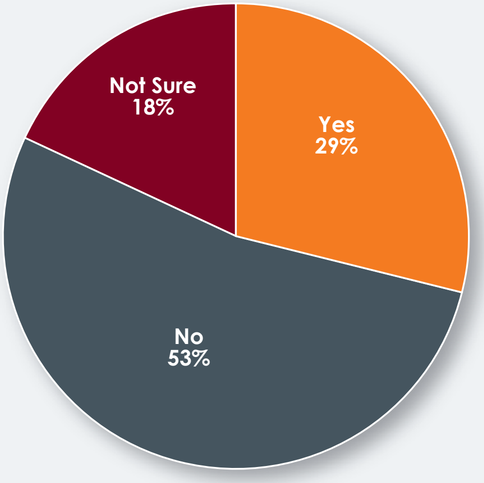


Figure 38. Has your organization performed a cybersecurity vulnerability assessment, including penetration testing, to assess technology vulnerabilities in your infrastructure?



Based on numerous discussions with our clients, cybersecurity is a key area of concern and risk for all organizations. We've all seen the news reports of large organizations that have been affected by a cyber-attack. It is, for good reason, a major concern for most organizations, both for-profits and not-for-profits alike. For this reason, we were surprised to find such a disconnect between where survey respondents indicate their concerns lie, and how they are acting on those concerns.

When organizations were asked about **how concerned they are about cybersecurity**, 77% answered that they are concerned. These organizations also listed cybersecurity as either one of their top 3, or one of their top 10 risk concerns. However, only 38% reported that they have **performed a cyber-risk assessment** that could uncover key vulnerabilities within their organizations. In addition, when these same organizations were asked if they had **performed a cybersecurity vulnerability assessment, including penetration testing, to assess technology vulnerabilities in their infrastructure**, we uncovered a startling fact:

A whopping 71% of organizations reported that they had not, or were not sure if they had, conducted a cybersecurity vulnerability test.

Being prepared for a cybersecurity breach should be a top priority for not-for-profits as we move into 2017

On top of this, when asked **how much they are planning to spend to enhance data security over the next 12 months**, nearly three-fourths of the organizations answered that they would be spending the same, or less, on data security in the coming year versus the prior year.

Finally, we asked respondents reporting **that they intend to spend more on cybersecurity, what the planned percentage increase was compared to the previous 12 months.** Two-thirds of these respondents reported that they would increase their spending by up to 10%. (It is important to note that just 28% of the total respondents were able or willing, to answer this question.) In short, less than 18% of total survey respondents plan to increase their spending on cybersecurity within the aforementioned range, while less than 8% of total survey respondents intend to increase cybersecurity spending by 10% and 50%. Just 2% of respondents plan to increase cybersecurity investment by 50% to over 100%.

These facts coupled with the fact that about 1 in 20 survey respondents reported that they had sustained a data security breach within the last year (Fig. 18) leaves us very concerned.

Figure 39. How much are you planning to spend to enhance data security over the next 12 months?

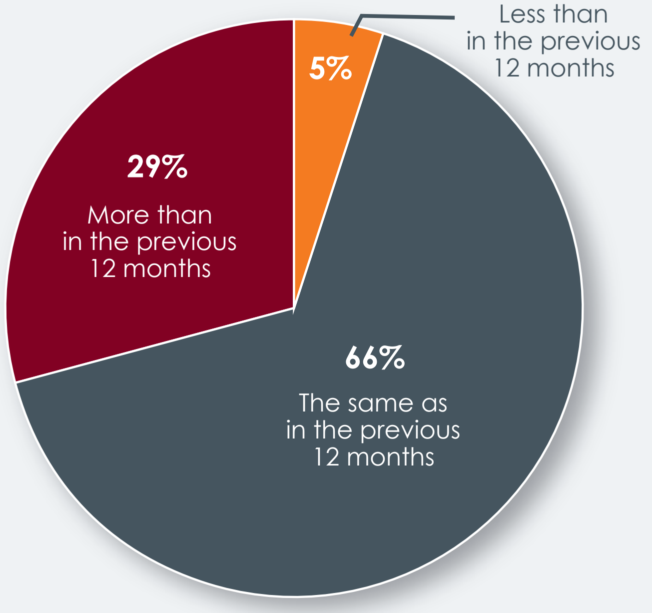
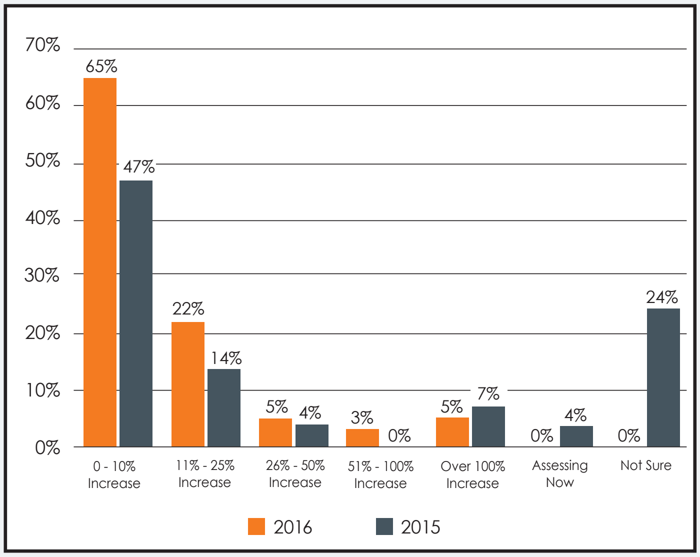


Figure 40. If you intend to spend more, what is the planned percentage increase over the previous 12 months?



Overall, we believe that being prepared for a cybersecurity breach should be a top priority for not-for-profits as we move into 2017. As mentioned earlier, 77% of the survey respondents reported that they were concerned about cybersecurity (Fig. 36), listing it as one of their top 3 or top 10 concerns. Yet just over one-third of these same organizations have conducted the requisite testing (Fig. 38) to determine their vulnerabilities in order to affect any real change and to truly protect their organizations.

In addition, very few have plans to increase their cybersecurity investment in the coming year (Fig. 39). This will leave many organizations vulnerable in the foreseeable future, with no better protection than they have now.

CONCLUSION

Thank you to all of our clients and contacts who took the time to complete this, our third annual survey. We hope the survey analysis report will help your organization develop the necessary governance practices to move to the next level.

We would like to highlight a key reason we produce this report each year: it is to help you start the conversation around each of the issues within the report with your boards, management teams, and organizational staff. Governance practices are an essential part of your not-for-profit organization. We hope that this report and the results of our previous surveys have helped you gain the insight needed to look ahead and build a successful and solid governance program.

About CohnReznick's Not-for-Profit and Education Industry Practice

CohnReznick has a dedicated Not-for-Profit and Education Industry Practice that works closely with the boards, management, and financial leaders of not-for-profit and educational organizations. Our clients include associations, foundations, independent schools and other educational institutions, not-for-profit affordable housing developers, religious and cultural organizations, and social service and charitable agencies.

In addition to providing these organizations with a comprehensive array of tax and accounting services, we also help them identify work flow inefficiencies, implement stringent governance and internal controls processes, leverage technology and IT infrastructure, and more effectively manage capital and planned giving campaigns.

CohnReznick serves many of the most respected not-for-profit organizations and educational institutions in the United States. These include our own professional organization, the American Institute of Certified Public Accountants (AICPA), with nearly 400,000 member CPAs.

Where can I learn more?
To learn more around the topics of governance, policies, procedures, tax, audit, and to learn about additional advisory services for not-for-profit organizations, visit our website at https://www.cohnreznick.com/industries/not-profit-and-education.

About CohnReznick

CohnReznick LLP is one of the top accounting, tax, and advisory firms in the United States, combining the resources and technical expertise of a national firm with the hands-on, entrepreneurial approach that today's dynamic business environment demands. Headquartered in New York, NY, and with offices nationwide, CohnReznick serves a large number of diverse industries and offers specialized services for middle market and Fortune 1000 companies, private equity and financial services firms, government contractors, government agencies, and not-for-profit organizations. The Firm, with origins dating back to 1919, has more than 2,700 employees including nearly 300 partners and is a member of Nexia International, a global network of independent accountancy, tax, and business advisors. For more information, visit www.cohnreznick.com.

COHNREZNICK
ACCOUNTING • TAX • ADVISORY
1301 Avenue of the Americas
New York, NY 10019
212-297-0400

www.cohnreznick.com

A member of Nexia International

CohnReznick is an independent member of Nexia International