



The Standards for excellence

An Ethics & Accountability Program for the Nonprofit Sector

June 22, 2004

Senate Committee on Finance
Attn: Editorial and Document Section
Room SD-203
Dirksen Senate Office Building
Washington, DC 20510-6200

Re: Hearing on "Charity Oversight and Reform: Keeping Bad Things from Happening to Good Charities", June 22, 2004

The Standards for Excellence Institute is a new national initiative to promote the highest standards of ethics and accountability in nonprofit governance, management and accountability, built on programs originated in Maryland and replicated in Georgia, Louisiana, North Carolina, Ohio and Pennsylvania. The Institute serves as the catalyst and organizer for the Standards for Excellence program, an ethics and accountability initiative based on the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector (Standards)*. The centerpiece of the program, the *Standards* include eight guiding principles and 55 performance indicators, and provide a model for how the most well managed and responsibly governed organizations operate. The *Standards* show how nonprofits act to be ethical and accountable in their program operations, governance, human resources, financial management, and fundraising.

The Standards for Excellence Institute works with associations, organizations, federations and coalitions of nonprofits to promote adherence to the practices and principles outlined in the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector*. At present six state associations of nonprofits offer Standards for Excellence programs to the nonprofit organizations in their jurisdictions in Georgia, Louisiana, Maryland, North Carolina, Pennsylvania, and Ohio. Thirty other state and regional organizations have expressed interest in utilizing the Standards for Excellence program for nonprofits in their regions.

In addition to disseminating the *Standards*, training opportunities and hands-on assistance is available to help those organizations interested in adopting the *Standards*. A series of written educational materials is available. Introductory and advanced training courses are also

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offered to assist nonprofit organizations implement the standards in their management and governance activities. A leadership-based, voluntary certification program is also offered in Louisiana, Maryland, Pennsylvania and Ohio.

The *Standards for Excellence*, and other extensive efforts underway throughout the nonprofit sector, recognize the importance of identifying and trying to achieve standards of true 'best practice' in the management and operation of nonprofit organizations. These standards must always assume full compliance with an appropriate structure of government regulation, and also exceed legal requirements in many of the management practices and values they embody. Any full panoply of 'standards for best practice' may never be fully achievable for most organizations, and therefore by its nature would not be appropriate to be construed as a legal requirement. We believe such standards are best developed and promulgated by the nonprofit sector itself. Given the limited resources of, and seemingly unlimited demands placed upon most nonprofit managers and boards, in our experience the greatest value of high standards for excellence or 'best practice', is their use as tools for self-evaluation, and as guides for training and self-improvement within individual organizations.

We have also found that providing technical assistance, training, and additional informational materials, to explain, clarify, and provide sample policies, is essential to assist organizations in understanding and moving toward adherence to our own *Standards*. Without such assistance, nonprofit organizations may find themselves frustrated and unable to develop the internal capacity to implement the best practices on their own.

Apart from the importance and value of a 'best practice' standard, we also recognize that a reasonable and adequate government regulatory structure for tax exempt organizations, and its effective enforcement, is essential to protect both the public interest and the integrity and credibility of the nonprofit sector. The public is generally unaware of the legal standards and requirements already in place, or the extent to which nonprofits may be sanctioned for non-compliance. But they are well aware of publicized cases of questionable practices and unethical behavior by a small number of organizations.

We would strongly endorse both the clarification of existing legal and reporting requirements, including for example the delineation between program and fund-raising activities and expenses on the Form 990, as well as more thorough enforcement of these standards by the Exempt Organizations Division. While it would be unreasonable for government to mandate legal compliance with true, ever-evolving standards of best practice, it would be equally unfortunate if the legal and regulatory structure governing nonprofits lacks the clarity, thoroughness or enforcement to protect the public's interest and inspire confidence in the performance of the sector.

Finally, we hope your examination of these issues will recognize that the management and performance of many of the nation's nonprofit organizations could be enhanced by greater investment in technical assistance and training for nonprofit staff, managers and boards. While organizations such as our own association exist and are accessible in many parts of the

nation, the resources available through fees, dues and charitable support limit both the reach and effectiveness of these services. This creates challenges both for the promotion and achievement of excellence, as well as for the understanding of and compliance with basic legal requirements.

Further, the extensive role of nonprofit organizations as providers of public services creates a relationship with government that now transcends regulation. The management capacity and proficiency of the nonprofit sector is now a significant factor in the efficiency and effectiveness of government programs and services. Models exist for government investment in the development and capacity of business organizations, and the nonprofit sector has been developing networks for training and technical assistance, which could be enhanced and nurtured with government assistance. Compliance with legal requirements, the pursuit of excellence in management, ethics and accountability, and effective delivery of public services would all be enhanced with new support for the sector's management capacity.

Thank you for the opportunity to comment on these interests of the Committee. I would be happy to answer any questions you may have about these comments and can be reached at 410-727-1726.

Sincerely,

Peter V. Berns
Chief Executive Officer
Standards for Excellence Institute