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Financial Management for Nonprofit Organizations: Father Joe's Village


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Final Project: Father Joe's Village

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Financial Management for Nonprofit Organizations

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*An Overview of Father Joe's Villages**Background*

His face is a familiar one in San Diego, seen regularly on billboards, television commercials, and occasionally, on the sides of city buses. Known for his work with the inner-city homeless, Father Joe Carroll has been a nationally recognized advocate for the homeless for over twenty-five years. What started as a modest shelter for homeless families in downtown San Diego, has grown into Father Joe's Villages (FJV), a multi-program, multi-dimensional approach to break the cycle of homelessness.

Since 1982, Fr. Joe's Villages' vision and mission reflect the aim the organization is determined to achieve within the communities it serves: to ensure that all neighbors in need will have access to food, housing, career development, healthcare, and education that will promote independence, self-sufficiency and fulfillment of one's potential. To address these needs, FJV provides short and long term transitional housing for homeless men, women and families, and offers a "Continuum of Care" to provide medical services, job development, substance abuse treatment, mental health services, parenting, budgeting, and educational support. Services are delivered through seven main programs located in San Diego County, Riverside County, and Mexico.

Fr. Joe's vision of assisting the urban homeless has also expanded into permanent low-income housing for single adults and families, the development of a Children's Village in Campo for foster care youth, and emergency outreach assistance to our neighbors in need in Mexico. Through various funding sources, FJV is able to sustain and maintain the services, materials and resources to accomplish the organization's mission, seven days a week, twenty-four hours a day. Poverty has never met a more tenacious opposition.

Cash Receipts and Donations

Due to the size and scope of operations, Fr. Joe is constantly soliciting donations. They include new and used materials that could be sold in the organization's thrift stores, boats and vehicles for auction, and cash donations. FJV programs are also funded by government and foundation grants. A team of five grant writers is responsible for locating new grant opportunities, writing grant proposals, and assisting program managers with grants compliance. Additional funding sources include planned giving, special events, partnerships with corporations, and direct mail campaigns.

Monetary donations are received by check and cash, and online or by telephone credit card submissions. The executive team was interested in knowing how these donations were handled and recorded. The team was also curious to know how many employees are involved in the process, and who had access to sensitive data relating to bank account and credit card information. Prior to meeting with the director of finance, Judy Long, to review the internal controls, the team was given a five-page document outlining the cash receipts and donations policy. The team sought to identify best practices as well as areas that might require additional clarification or improvement. The cash receipts and donations policy covered mail sorting, donations sorting, Donor Perfect entries, check endorsements, thank-you letters, batch report (daily process), donations reconciled & bank deposit preparation, and the remote deposit process.

McLaughlin (2002) notes that internal controls need to be in place to ensure accountability and accuracy. A review of the cash receipts and donations policy revealed that a number of best practices had been implemented to ensure accountability and accuracy, such as segregation of duties, instances of good policy communication, and adequate record keeping. It

also revealed the policy could benefit from additional clarity. But, of particular concern, and one not likely to change, was a step in the process that appeared to be unique to the organization.

Each Saturday, Fr. Joe opens his mail, sorts all donations, and makes note of the donors to whom he wants to send a personalized thank you card. After the mail is opened, it is delivered to his administrative secretary, who enters the check and cash amounts into Donor Perfect before it is taken to the administrative assistant for additional data entry. Although the executive team strongly recommends that this particular duty be segregated, Fr. Joe does not seem willing to give up this unique connection he has to his donors. Featured in the subsection of donations sorting, Fr. Joe is his own internal control.

Each subsection of the written cash donation and receipt policy identifies the person responsible for each task, sometimes using only personal names rather than job titles. To identify the number of people involved with cash receipts and donations, we created a spreadsheet showing each person mentioned in the policy and his/her assigned responsibilities. By viewing the policy in a different format, we noticed a contradiction between the subsections of Donor Perfect entry and the batch report. Both stated that different employees received the cash after the amounts and donor names had been entered into Donor Perfect. Furthermore, some of the subsections contained numerous steps, as in donations reconciled & bank deposit preparation that listed eight major responsibilities including a total of twenty sub-steps. In another subsection, an alternative person was named to carry out a particular responsibility if the CFO was not available. Unfortunately the job title of the alternate is unknown because the person is referenced by first and last name. The team wonders if this individual was selected as an alternate due to her trustworthiness or to her position.

In areas directly related to best practices in the cash receipts and donation policy, there is a clear indication of segregation of duties. A three-person segregation involving the Director of Finance, the Accounting Assistant and the CFO exists to ensure accuracy when reviewing revenue data. This was particularly apparent in review of the Excel spreadsheet batch list of all Donor Perfect entries for each day. The CFO, Diane Stumph, stated that a policy outlining the segregation of duties had only recently been created, as the process had been understood but never written (J. Long, personal communication, August 30, 2009). The previous CFO was responsible for many tasks that have now been delegated to other members in the finance department.

Regarding policy communication, the Director of Finance informed us that completion of all finance department policies was still a project in progress, and many procedures were still followed without formal documentation in place. It was Director of Finance's intention to ensure all procedures would have formal policies at some point in time. Currently, policy is communicated through both verbal and written means. An interesting revelation occurred as a result of this project when the CFO discovered that a subsection of the cash donations and receipts policy missed an internal control involving sensitive credit card information. This might not have been uncovered had the executive team not posed the question to the CFO regarding credit card donations given over the phone. This particular point will be covered in the evaluation of credit card donations later in this report.

Recommendations

The executive team recommends that the five-page policy document outlining cash donations and receipts be standardized to reflect job titles throughout all subsections, rather than the use of personal names currently employed at FJV. Should any member of the finance

department leave the organization, it may be confusing to determine who ought to oversee particular tasks and responsibilities. The team also recommends that the CFO meet with the finance department to review the cash receipts and donations policy to ensure each employee is following proper procedure, as security gaps might exist or revisions might have been made to improve the process that have not yet been noted in the document. Contradictions relating to assigned responsibilities could easily be remedied by making the necessary corrections within the document.

Internal Controls Audit

Strengths

To assess Father Joe's Villages' internal controls we used an internal controls audit tool created by the American Institute of Certified Public Accountants. Our project team conducted an interview with the organization's Director of Finance on Thursday, July 30, 2009. Additional information was provided via telephone conversations and e-mail by Diane Stumph, the organization's Chief Financial Officer. The internal controls audit serves as a powerful lens to examine the organization's "tone at the top" in a very systematic way. A second valuable means we employed in order to assess the tone at the top was a personal conversation with the organization's CEO. Our team was also able to do this, and a report on that interaction is contained later in this paper.

Based on the results of the internal controls audit, our general impression is that Father Joe's Villages has reasonable practices, procedures and safeguards in place. The organization appears to attend to issues of integrity and values with a mix of documents and processes that reinforce appropriate institutional and personal conduct. In addition to explicit mission, values and purpose statements, Father Joe's has a "creed" that codifies the moral convictions of the

organization. Standard documents, such as a conflicts of interest policy, code of ethics, and whistleblower policy, are contained in the employee handbook. These are discussed and reinforced annually during performance reviews. The existence of a “conflicts committee” demonstrates that there is a high-level concern within the organization and a commitment to identify and resolve potential conflicts of interest.

Father Joe’s has well defined policies regarding the violation of internal controls, including automatic termination for theft and other similar measures. Management is expressly prohibited from overriding controls that have been put in place. Some of these controls have been put in place during the past year when a staff member was brought on board in the finance department. Ms. Long has been identified by the organization as the key individual responsible for monitoring and mitigating any fraud risks and taking appropriate action when necessary.

Father Joe’s Villages values the importance of job knowledge, competence and skills in the people who are involved with all aspects of the operation, including trustees. Potential board members are interviewed to assess what skills and expertise they will bring to the organization. All job descriptions clearly describe the necessary skill sets required for each position. For higher level positions, such as the CFO, the board of trustees is involved in the recruitment and hiring process.

Although there is no internal audit function, our review indicates the audit committee is very active and engaged with the organization. The audit committee meets on a monthly basis, although this has only been the case since the start of the current year (the previous meeting schedule was quarterly). Given the size of the organization, its complexity and its budget, we believe a monthly meeting schedule is wise. This will allow the audit committee more time to focus on each of the four entities and seven limited partnerships that comprise Father Joe’s

Villages. According to Ms. Long, the audit committee actively reviews and evaluates management's financial planning as well as its results. The audit committee meets with the CFO throughout the audit process, but not on a regular basis outside of the audit process. The CFO regularly reports to the audit committee the status of accounting department personnel.

The organization committed itself to strengthening the accounting and finance department three years ago. The board has made it clear that this is a priority. Father Joe's Villages recognizes the growth that has taken place and is continuing to support the expansion and improvement of the finance department. The current size of the finance department staff stands at 14.5 FTEs. Based on revenues of \$20,000,000 that were reported to us during our meeting, this yields a ratio of 1.4 finance positions per each \$1 million of operating revenue. While that staffing level appears more than adequate, management is currently reorganizing staffing to ensure that the workload is distributed to maximize productivity. Appropriate structures and policies appear to be in place for assignment of authority and responsibility, human resources, and monitoring functional aspects of the organization's finances and operations.

Weaknesses

While Father Joe's Villages employ best practices in many areas, a few key facets of the organization could be improved. Chief among these is communication. Although all six questions regarding communication and information on the internal controls audit tool received affirmative answers, there were qualifying statements that demonstrated the organization required improvements in this area. For example, the question pertaining to operational and financial information being communicated to the right people in the organization on a timely basis received a "yes" answer, but the CFO provided additional input (after our interview with

the Director of Finance) indicating such information was at a “minimum level.” In fact, there were numerous sections on the internal controls audit tool where the CFO’s answers differed significantly from those of the Director of Finance. This lack of symmetry between the CFO and the Director of Finance served as the strongest indicator that communication is a weakness within Father Joe’s finance department.

Another area of weakness that was only partially revealed by the internal controls audit tool and required further inquiry was a lack of transparency. We learned during our interview with the Director of Finance that documents such as a whistleblower policy and a conflict of interest policy were part of the employee handbook and these were discussed during annual performance reviews. However, it was unclear if the employee was required to acknowledge their compliance with the policies by signing the documentation. There was also no mention of a mechanism to provide these documents to trustees annually for their review and signature. Investigating further, we examined Father Joe’s Village website. We were unable to find any of these documents or policies online. Additionally, there appears to be no annual report or IRS Form 990 available on the organization’s website. The website’s “About Us” section contains pertinent information detailing the organization’s origins, mission, creed and purpose, but it has no financial information or other documents such as audited financial statements that one might expect for a company that is held in the public trust.

As was noted above, Father Joe’s Villages does not have an internal audit function. The organization’s audit committee appears to be active and engaged. However, although the audit committee is defined in the bylaws, it lacks a written charter. This could result in the committee’s function and duties being unclear to its members. Several publications are available to provide guidance to the organization with its current effort to create a charter for its audit

committee (Herman, 2007; Ruppel, 2005; IIA, 2009). We also noted in the internal controls audit that there are no regularly scheduled meetings between the audit committee and the CFO. This is one of the items that could be addressed in a committee charter. The Finance Director reported to us after our interview that a charter was being written and will be completed by the end of 2009.

Suggestions

Based on results of the internal control audit tool, our team makes the following recommendations to Father Joe's Villages:

Communication & Documentation - Father Joe's Villages should immediately implement measures to improve and document communications among its finance staff. The Director of Finance and the CFO should develop an inventory of all existing documents that pertain to financial policies and procedures, ethical conduct, business practices and conflicts of interest. They should jointly review these documents and identify any key policies, procedures and position statements that the organization presently lacks. Staff members with the appropriate skills and background should draft any documents found to be lacking. To ensure information is made available to all employees more effectively, we recommend focusing the staff-only website (called Policy Tech) as a vehicle for document distribution and archiving. However, just as importantly, the organization needs to develop a culture where it is a priority to accurately and effectively share information .

Transparency – Information that should readily be available to the public, such as the organization's IRS Form 990 and audited financial statements, is not easily accessible. This information should be placed on Father Joe's website immediately. Discussions at the highest level of leadership should determine if other policy documents such as the organization's code of ethics should be made available on the website.

Audit committee – Because of the size of Father Joe’s annual budget, the complexity of its operations, and the lack of an internal audit function, the organization could benefit from a regular review of its reporting process, system of internal controls, audit process, and the process for monitoring compliance with laws and regulations. The audit committee could serve as a crucial resource in achieving this objective. We recommend the audit committee modify its current practice of only meeting during an audit with the CFO and Director of Finance and incorporate time with these two individuals on the agenda of its monthly meetings. Results of these meetings should be presented at the monthly of the board of trustees meeting.

Whistleblower Process – Although the organization has a whistleblower policy, it does not have a specified mechanism for employees or volunteers to safely report suspected inappropriate conduct. An anonymous hotline, suggestion box, or online submission form should be made available for this purpose, and its existence should be communicated to all staff and volunteers.

An Evaluation of Credit Card Procedures

Background

Father Joe’s Villages transacts nearly 20,000 online or phone contributions annually. Of the four merchant categories defined by quantities of scans, Father Joe’s falls into category 4, the smallest category exempting them from a validation process by the credit card companies. This validation process involves a self-assessment questionnaire, an on-site visit by a credit card company inspector, and a network scan performed by an authorized PCI compliance scanning vendor. Father Joe’s Villages is, however, required to comply with Payment Card Industry (PCI) regulations. Due to the fact that Father Joe’s does not use credit card machines, they do not have to concern themselves with credit card receipts. This singularly reduces their risk of a security

breach to a significant degree as the proper storage and disposal of receipts represents one of the greatest challenges for credit card security. In processing credit cards, Father Joe's has taken a number of steps to ensure a high degree of security, while nonetheless revealing several weaknesses.

PCI Compliance Categories

There are six categories of PCI compliance security standards: build and maintain a secure network, protect cardholder data, maintain a vulnerability management program, implement strong access control measures, regularly monitor and test networks and maintain an information security policy (Young) (PCI Compliance Guide, n.d., p. 1). An analysis of Father Joe's current system reveals the following: they use Verisign SSL encryption (Secure Socket Layers) on their website which is the state of the art technology for credit card data transfer. Data is secured externally. This network is maintained by a dedicated IT staff, which installed a firewall configuration to protect cardholder data, and tests it on a regular basis. Along with a unique ID assigned to each person with access, they have implemented their own policies and plans in order to detect and/or respond to a security breach. Their antivirus software is state of the art and updated regularly. As Judy further explained, physical access to cardholder data and information on donors is restricted within the organization and available on a need to know basis (J. Long, personal communication, July 31, 2009). As Director of Finance, Judy said, "I was here for a year before I was allowed to get close to it (J. Long, 2009)!"

System Weaknesses at Father Joe's Villages

In terms of system weaknesses, three have been identified. Father Joe's relies much on verbal communication of policies rather than establishing a written document of procedures and

policies – signed by every employee – that addresses information security. This gap creates an opportunity for someone who may interpret it as an invitation to test this laxity.

Another more serious issue is the way in which donations are taken by phone. First of all, the calls are taken in the general reception area where third parties could hear verbal exchanges of sensitive data. At a minimum such calls should be isolated to a closed door environment. But of even greater concern, the credit card information is written down and then entered in the office computer. It was unclear what security was in place in terms of the network system, including internet access and firewall or antivirus protection. These are all urgent considerations in terms of compliance regulations. Furthermore, our most startling finding concerned donations exceeding \$100. In such instances, a copy of that transaction including donor name, address and credit card number has historically been kept in a ledger - just as they do with checks - which Father Joe periodically peruses to look up information on donors. This book, although kept in a locked office, could easily be removed or accessed by any number of unknown persons. As a direct result of our inquiries, Father Joe's Villages has implemented a new policy - in effect immediately - that requires credit card information to be blacked out.

Finally, Father Joe's does not maintain a web liability/web outage policy which puts them at potential financial risk should a breach occur. According to Shift4, a company specialized in credit card security systems, the Visa fine is \$50,000 for the first breach of customer data and it goes up dramatically after that (Shift4: Secure Payment Processing, n.d.).

Conclusion

In 2008 an extensive list of payment application security requirements called the Payment Application - Data Security Standard or PA-DSS was introduced which is based on Visa's Payment Application Best Practices (PABP). These requirements assure that particularly

sensitive data such as full magnetic swipe, authentication data and PIN block data is not retained or stored subsequent to validation (Shift4: Secure Payment Processing, n.d.). According to Judy Long, Father Joe's is compliant with these requirements. Due to the fact that Father Joe's does not swipe credit cards, many of these requirements do not impact them. Nonetheless, credit card fraud is on the rise necessitating a stringent security system. According to a recent article in The Washington Post, "some of the most notable data breach incidents last year targeted companies that had recently been certified as compliant with those standards" (Krebs, 2009, ¶ 3). Beginning with the "tone at the top" an organization must signal its intent to treat this topic as a number one priority. In our opinion, Father Joe's Villages could stand to send a stronger signal.

Tone at the Top

Humble Beginnings

Before Father Joe Carroll's arrival, approximately 30 years ago, the organization was a small nonprofit center "handing out peanut butter sandwiches." Father Joe created a faith-based nonprofit organization, currently overseeing seven major care centers in San Diego and Indio, "addressing the immediate and ongoing homeless needs of underprivileged children, families and individuals who, for various reasons, have found themselves without basic life necessities" (Father Joe's Villages, n.d.).

Utilizing the concept of one-stop shopping, Father Joe was the first person to undertake the same approach to human rehabilitation: At Father Joe's Villages an individual can receive multiple types of human service care in one location. Father Joe is very well respected within his organization and in the general community. He is viewed as generous and kind and possessing the skills required to build a well-run business. His passion for his work and his charisma strengthen his allure as a visionary, servant leader. Robert K. Greenleaf coined the term "servant

leadership,” which can be best described as someone who devotes themselves to serving the needs of the organization’s members. He is also one that focuses on meeting the needs of those who lead, develops employees and brings the best out in them, facilitates personal growth, and listens to build a sense of community (Greenleaf, n.d.). Father Joe Carroll can also be described as a visionary leader who provides direction in the midst of transformational change (Changing Minds, n.d.).

Meet & Greet with Father Joe Carroll

Our group had the impromptu opportunity to meet with Father Joe and make a firsthand impression of him. We observed him to be jovial, attune to what was going on in the organization, constantly thinking, and engaged in his work with a predilection for doing business a certain way. We noticed that his television was set to Fox News so that he could stay abreast of what is going on in the world at all times. He combs the media news and uses it strategically to create tie-ins with Father Joe’s mission. He has received invaluable press coverage for his organization through this method which has helped generate awareness and grow the donor base. While watching the news simultaneously, he was also able to share with us details of a donor who enjoys taking youth out to dinner once a month. He had an awareness of the donor’s interests and the youth with whom she visits. Father Joe handles his own affairs. Rather than having a scheduler dictate to him what his schedule for the day is, Father Joe reverses the process and informs his staff of his schedule so that they may adjust to his needs accordingly. We could sense that Father Joe was on top of his own "game." When we asked about his system of writing thank you cards to those who donate by mail, since this was an area that we were investigating for our internal control system, he suggested that every person that writes him a hand-written note gets one in return. That was his way of doing business.

Others at the Top

Soon after meeting Father Joe, we had the opportunity to speak with the organization's finance director who went through our internal control questionnaire with us. She was fairly new to the organization, having only been hired a year earlier. She stated that since arriving at Father Joe's, there had been many changes related to the finance department. These include growing the finance team staff, updating its structure and implementing many new policies and procedures. They had just undergone four on-site audits for the various divisions of Father Joe's Villages. The finance director was pleased to report the audits went well. When asked questions about Father Joe and other executive members involvement, she stated that there was ample finance related education going on within the organization enabling others to engage and understand the financial impact and implications of their programs. She also suggested the CFO does this regularly with Father Joe. What we could also sense was that many people within the organization had been there for many years - perhaps we could even refer to them as Father Joe "lifers," who are committed to the FJV Creed.

Overall, we could sense the tone at the top to be a strong one. The executives appear to have done an excellent job of creating stable working systems to sustain organizational growth. Below the surface, however, it was possible to detect a discrepancy at times between the organizational structure and Father Joe's style of management. Out of necessity, the organization has grown beyond its grassroots origins and taken on a dimension requiring adherence to more procedures and policies. While Father Joe may be willing to adapt when conditions call for it, his staff walk a fine line between requesting change and implementing it. There seems to be a general sense not to "stir up" something if it is not needed and that Father Joe knows best. He is

after all, the visionary leader who defined the organization over 35 years ago and still runs it to this day.

Suggestions for the future

In Jim Collins' book on leadership entitled *Good to Great*, he describes how great leaders often impart their knowledge to a successor. He states, "Leaders want to see the company even more successful in the next generation, comfortable with the idea that most people won't even know that the roots of that success trace back to their efforts" (Collins, 2001 p.25). Our team found this to be an area warranting further consideration by Father Joe's Villages. Father Joe's image and presence is a key element to the success of their nonprofit. Without him, the organization is left with no one to lead even though systems are now in place for long-term success. Perception is everything and with the potential void of Father Joe, the organization could take a painful hit by adverse public reaction which could potentially threaten 35 years of dedication and hard work. In our opinion, grooming a successor must be a priority in order to secure the long-term viability of Father Joe's Villages.

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