



## STANDARDS FOR EXCELLENCE

### An Ethics and Accountability Code for the Nonprofit Sector

#### 7<sup>th</sup> Edition, October 2009

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#### PREAMBLE

Pennsylvania's nonprofit sector is committed to public service. Hard at work in communities across the state, nonprofit organizations are serving and meeting the needs of our citizens and strengthening our communities.

The success of Pennsylvania's nonprofit organizations depends on public confidence and broad public support. Pennsylvania's nonprofits are supported by individuals, corporations and foundations through charitable contributions and volunteer effort; by government through contracts and grants; by consumers through purchases and fees; and by the general public through state and federal tax laws.

The Pennsylvania Association of Nonprofit Organization's (PANO) is the statewide membership organization, serving and advancing the charitable nonprofit sector through leadership, advocacy, programs and services in order to improve the quality of life in Pennsylvania. PANO is committed to bolstering public confidence and support for the nonprofit sector. Therefore, PANO has adopted adopting these *Standards for Excellence (Standards)* to promote ethical practices and accountability in nonprofit organizations across the state.

Nonprofit organizations must comply with applicable local, state and federal laws. These *Standards* build on that foundation and go a step further. Based on fundamental values – such as honesty, integrity, fairness, respect, trust, responsibility and accountability – these *Standards* describe how nonprofits should act to be ethical and accountable in their program operations, governance, human resources, financial management and fundraising. Eight (8) *Guiding Principles* are provided, along with fifty-five (55) *Standards* – more detailed performance benchmarks which will enable nonprofits to strengthen their operations.

PANO is committed to these *Standards*, and all PANO members are encouraged to pledge their commitment to the *Guiding Principles*. Members are supported in their efforts to implement the *Standards* through training and technical assistance provided by PANO, as well as through a voluntary self-regulatory program by which organizations are evaluated based on their compliance with the performance indicators. In addition, PANO invites non-members to subscribe to these Standards.

The *Standards for Excellence* are intended to describe how the most well managed and responsibly governed organizations should, and do, operate. They provide benchmarks to determine how well an organization is fulfilling its obligations to those who benefit from its programs, to contributors, and to the public.

## **I. MISSION AND PROGRAM**

Charitable nonprofits are founded for the public good and operate to accomplish a stated purpose through specific program activities. A charitable nonprofit should have a well-defined mission, and its programs should effectively and efficiently work toward achieving that mission. Charitable nonprofits have an obligation to ensure program effectiveness and to devote the resources of the organization to achieving its stated purpose.

## **II. GOVERNING BODY**

Charitable nonprofits are governed by an elected, volunteer board of directors, which should consist of individuals who are committed to the mission of the organization. An effective charitable nonprofit board should determine the mission of the organization, establish management policies and procedures, assure that adequate human resources (volunteer or paid staff) and financial resources (earned income, government contracts and grants, and charitable contributions) are available, and actively monitor the organization's financial and programmatic performance.

## **III. CONFLICT OF INTEREST**

Charitable nonprofit board and staff members shall act in the best interest of the organization, rather than in the furtherance of personal interests or the interests of third parties. A charitable nonprofit should have policies in place and should routinely and systematically implement those policies to prevent actual, potential, or perceived conflicts of interest.

## **IV. HUMAN RESOURCES**

A charitable nonprofit's relationship to its employees and volunteers is fundamental to its ability to achieve its mission. Volunteers occupy a special place in charitable nonprofit organizations, serving in governance, administrative and programmatic capacities. An organization's human resource policies should address both paid employees and volunteers and should be fair, establish clear expectations and provide for meaningful and effective performance evaluation.

## **V. FINANCIAL AND LEGAL**

Charitable nonprofits must practice sound financial management and comply with a diverse array of legal and regulatory requirements. A charitable nonprofit's financial system shall assure that accurate financial records are kept and that the organization's financial resources are used in the furtherance of the organization's charitable purposes. Organizations should conduct periodic reviews to address regulatory and liability concerns.

## **VI. OPENNESS**

Charitable nonprofits are private corporations, which operate for public purposes with public support. As such, they should provide the public with information about their mission, program activities, and finances. A charitable nonprofit should also be accessible and responsive to members of the public who express interest in the affairs of the organization.

## **VII. FUNDRAISING**

Charitable fundraising provides an important source of financial support for the work of most charitable nonprofit organizations. An organization's fundraising program shall be maintained on a foundation of truthfulness and responsible stewardship. Its fundraising policies should be consistent with its mission, compatible with its organizational capacity and respectful of the interests of donors and prospective donors.

## **VIII. PUBLIC AFFAIRS AND PUBLIC POLICY**

Charitable nonprofits provide an important vehicle through which individuals organize and work together to improve their communities. Charitable nonprofits should represent the interests of the people they serve through public education and public policy advocacy, as well as by encouraging board members, staff, volunteers and constituents to participate in the public affairs of the community.

### **I. MISSION AND PROGRAM**

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#### **A. Mission**

(1) A charitable nonprofit should have a formal mission statement that defines the organization's purpose and is approved by the board of directors. The organization's activities should be consistent with the mission.

#### **B. Organizational Evaluation**

(1) A charitable nonprofit should periodically revisit its mission (e.g., every 3 to 5 years) to determine if the need for its programs continues to exist. The organization should evaluate whether the mission needs to be modified to reflect societal changes, whether its current programs should be revised or discontinued or whether new programs need to be developed.

### C. Program Evaluation

(1) A charitable nonprofit should have defined, cost-effective procedures for evaluating, both qualitatively and quantitatively, its programs and projects in relation to its mission. These procedures should address programmatic efficiency and effectiveness, the relationship of these impacts to the cost of achieving them and the outcomes for program participants. Evaluations should include input from program participants.

(2) Evaluations should be candid, be used to strengthen the effectiveness of the organization and, when necessary, be used to make programmatic changes.

### D. Program Service

(1) In rendering its programs or services, a charitable nonprofit should act with the utmost professionalism and treat persons served with respect. Where appropriate, a charitable nonprofit should have policies in place, which protect the confidentiality of personal information and should provide a grievance procedure to address complaints. Charitable nonprofits should regularly monitor the satisfaction of program participants.

## II. GOVERNING BODY

Charitable nonprofits are governed by an elected, volunteer board of directors, which should consist of individuals who are committed to the mission of the organization. An effective charitable nonprofit board should determine the mission of the organization, establish management policies and procedures, assure that adequate human resources (volunteer or paid staff) and financial resources (earned income, government contracts and grants and charitable contributions) are available, and actively monitor the organization's financial and programmatic performance.

### A. Board Responsibilities

(1) The board should engage in ongoing planning activities to determine the mission of the organization, to define specific goals and objectives related to the mission and to evaluate the success of the organization's programs toward achieving the mission

(2) The board should establish policies for the effective management of the organization, including financial and, where applicable, personnel policies.

(3) The board annually should approve the organization's budget and periodically should assess the organization's financial performance in relation to the budget. As part of the annual budget process, the board should review the percentages of the organization's resources spent on program, administration and fundraising. The full board should also approve the findings of the organization's annual audit and management letter and plan to implement the recommendations of the management letter.

(4) The full board or some designated committee of the board shall hire the executive director, set the executive's compensation, evaluate the director's performance, and have input into setting the executive director's goals at least annually. In cases where a designated committee performs this responsibility, details should be reported to the full board.

(5) The board should periodically review the appropriateness of the overall compensation structure of the organization.

## B. Board Composition

(1) The board should be composed of individuals who are personally committed to the mission of the organization and possess the specific skills needed to accomplish the mission.

(2) Where an employee of the organization is a voting member of the board, the circumstances must insure that the employee will not be in a position to exercise undue influence.

(3) The board should have no fewer than five (5) unrelated directors. Seven (7) or more directors are preferable.

(4) The organization's bylaws should define specific terms of service for board members.

(5) Board membership should reflect the diversity of the communities served by the organization.

(6) Board members should serve without compensation for their services as board members. Board members may be reimbursed only for expenses directly related to carrying out their board service.

## C. Conduct of the Board

(1) The board is responsible for its own operations, including the education, training and development of board members, periodic (i.e., at least every two years) evaluation of its own performance and, where appropriate, the selection of new board members. New board members should receive an introduction to the *Standards for Excellence*.

(2) The board should have a rigorous development process that outlines clear performance expectations for board members and ensures accountability for performance. To ensure that the board remains vital and that it represents the constituencies necessary to make it most effective, the board should establish mechanisms for recruitment of new members, terms of service, and succession planning, which could include limitation of the number of consecutive terms a board member may serve.

(3) The board should establish stated expectations for board members, including expectations for participation in fundraising activities, committee service and program activities.

(4) The board should meet as frequently as is needed to fully and adequately conduct the business of the organization. At a minimum, the board should meet four times a year.

(5) The organization should have written policies which address attendance and participation of board members at board meetings. These policies should include a process to address noncompliance.

(6) Written meeting minutes reflecting the actions of the board, including reports of board committees when acting in the place of the board, should be maintained and distributed to board and committee members.

### III. CONFLICT OF INTEREST

Charitable nonprofit board and staff members shall act in the best interest of the organization, rather than in the furtherance of personal interests or the interests of third parties. A charitable nonprofit should have policies in place and should routinely and systematically implement those policies to prevent actual, potential, or perceived conflicts of interest.

#### A. Conflict of Interest Policy

(1) Charitable nonprofits should have a written conflict of interest policy. The policy should be applicable to board members, staff and volunteers who have significant independent decision making authority regarding the resources of the organization. The policy should identify the types of conduct or transactions that raise conflict of interest concerns, should set forth procedures for disclosure of actual or potential conflicts, and should provide for review of individual transactions by the uninvolved members of the board of directors.

#### B. Conflict of Interest Statements

(1) Charitable nonprofits should provide board members, staff, volunteers and others who have significant independent decision-making authority with a conflict of interest statement, which summarizes the key elements of the organization's conflict of interest policy. The conflict of interest statement should provide space for the board member, employee or volunteer to disclose any known financial interest which the individual, or a member of the individual's immediate family, has in any business entity which transacts business with the organization. The statement should be provided to and signed by board members, staff, and volunteers both at the time of the individual's initial affiliation with the organization and at least annually thereafter.

### IV. HUMAN RESOURCES

A charitable nonprofit's relationship to its employees and volunteers is fundamental to its ability to achieve its mission. Volunteers occupy a special place in charitable nonprofit organizations, serving in governance, administrative and programmatic capacities. An organization's human resource policies should address both paid employees and volunteers and should be fair, establish clear expectations, and provide for meaningful and effective performance evaluation.

## A. Personnel Policies

(1) A charitable nonprofit should have written personnel policies and procedures, approved by the board of directors, governing the work and actions of all employees and volunteers of the organization. In addition to covering basic elements of the employment relationship (e.g. working conditions, employee benefits, vacation and sick leave), the policies should address employee evaluation, supervision, hiring and firing, grievance procedures, employee growth and development, confidentiality of employee and client and organization records and information. A charitable nonprofit should periodically review its personnel policies.

(2) With respect to volunteers, the organization's policies and procedures should also address initial assessment or screening, assignment to and training for appropriate work responsibilities, ongoing supervision and evaluation and opportunities for advancement.

## B. Employee Performance Evaluation

(1) Organizations should have a system in place for regular written evaluation of employees by their respective supervisors, which should take place at least annually.

## C. Employee Orientation

(1) New employees of the organization should receive an orientation, which includes a review of the organization's personnel policies and procedures, position description and an introduction to the *Standards for Excellence*. Employees should be provided with a copy of the personnel policies and these *Standards* and should acknowledge receipt in writing.

## V. FINANCIAL AND LEGAL

Charitable nonprofits must practice sound financial management and comply with a diverse array of legal and regulatory requirements. A charitable nonprofit's financial system shall assure that accurate financial records are kept and that the organization's financial resources are used in the furtherance of the organization's charitable purposes. Organizations should conduct periodic reviews to address regulatory and liability concerns.

### A. Financial Accountability

(1) A charitable nonprofit should operate in accordance with an annual budget which has been approved by the board of directors.

(2) A charitable nonprofit should create and maintain financial reports on a timely basis that accurately reflect the financial activity of the organization. Internal financial statements should be prepared no less frequently than quarterly, should be provided to the board of directors, and should identify and explain any material variation between actual and budgeted revenues and expenses.

(3) Charitable nonprofits reporting total annual revenues in excess of \$500,000 should be subject to an audit by an independent Certified Public Accountant. Organizations reporting total annual revenues in excess of \$300,000 should be subject to a review of financial statements by an independent Certified Public Accountant. Organizations reporting total annual revenues in excess of \$100,000 should have a compilation of financial statements prepared by an independent Certified Public Accountant.

(4) Organizations should provide employees, board members and volunteers a confidential means to report suspected financial impropriety or misuse of organization resources and should have in place a policy prohibiting retaliation against persons reporting improprieties.

(5) Organizations should have written financial policies adequate for the size and complexity of their operations governing: (a) investment of the assets of the organization, (b) internal control procedures, (c) purchasing practices and (d) reserve funds. A charitable nonprofit should periodically review its financial policies.

## B. Legal Compliance and Accountability

(1) Charitable nonprofits must be aware of and comply with all applicable federal, state and local laws. This may include, but is not limited to, the following activities: complying with laws and regulations related to fundraising, licensing, financial accountability, document retention and destruction, human resources, lobbying and political advocacy and taxation.

(2) Organizations should periodically assess the need for insurance coverage in light of the nature and extent of the organization's activities and its financial capacity. A decision to forego general liability insurance coverage or Directors and Officers liability insurance coverage shall only be made by the board of directors and shall be reflected in the minutes for the meeting at which the decision was made.

(3) Charitable nonprofits should periodically conduct an internal review of the organization's compliance with known existing legal, regulatory and financial reporting requirements and should provide a summary of the results of the review to members of the board of directors.

## VI. OPENNESS

Charitable nonprofits are private corporations, which operate for public purposes with public support. As such, they should provide the public with information about their mission, program activities, and finances. A charitable nonprofit should also be accessible and responsive to members of the public who express interest in the affairs of the organization.

### A. Annual Report

(1) Charitable nonprofits should prepare, and make available annually to the public, information about the organization's mission, program activities and basic audited (if applicable) financial data. Basic financial data should, at a minimum, include a summary statement of activities and a

summary statement of financial position. The report should also identify the names of the organization's board of directors and management staff.

## B. Public Access

(1) Charitable nonprofits should provide members of the public who express an interest in the affairs of the organization with a meaningful opportunity to communicate with an appropriate representative of the organization.

(2) Charitable nonprofits should have at least one staff member who is responsible to assure that the organization is complying with both the letter and the spirit of federal and state laws, which require disclosure of information to members of the public.

## VII. FUNDRAISING

Charitable fundraising provides an important source of financial support for the work of most charitable nonprofit organizations. An organization's fundraising program shall be maintained on a foundation of truthfulness and responsible stewardship. Its fundraising policies should be consistent with its mission, compatible with its organizational capacity and respectful of the interests of donors and prospective donors.

### A. Fundraising Activities

(1) A charitable nonprofit's fundraising costs should be reasonable over time. On average, over a five year period, a nonprofit should realize revenue from fundraising and other development activities that are at least three times the amount spent on conducting them. Organizations whose fundraising ratio is less than 3:1 should demonstrate that they are making steady progress toward achieving this goal or should be able to justify why a 3:1 ratio is not appropriate for the individual organization.

(2) Solicitation and promotional materials shall be accurate and truthful and should correctly identify the organization, its mission and the intended use of the solicited funds.

(3) All statements made by the charitable nonprofit in its fundraising appeals about the use of a contribution should be honored.

(4) Charitable nonprofits should honor the known intentions of a donor regarding the use of donated funds.

### B. Donor Relationships and Privacy

(1) Charitable nonprofits should respect the privacy of donors and safeguard the confidentiality of information, which a donor reasonably would expect to be private.

(2) Charitable nonprofits should provide donors with an opportunity to state that they prefer to remain anonymous and that their name, the amount of their gift, or other information would not be publicly released.

(3) Charitable nonprofits should provide donors an opportunity to have their names removed from any mailing lists which are sold, rented or exchanged.

(4) Charitable nonprofits should honor requests by a donor to curtail repeated mailings or telephone solicitations from in-house lists.

(5) Solicitations should be free from undue influence or excessive pressure and should be respectful of the needs and interests of the donor or potential donor.

### C. Acceptance of Gifts

(1) An organization should have policies in place to govern the acceptance and disposition of charitable gifts that are received in the course of its regular fundraising activities. These policies should include procedures to determine any limits on individuals or entities from which the organization will accept a gift, the purposes for which donations will be accepted, the type of property which will be accepted and whether to accept an unusual or unanticipated gift in light of the organization's mission and organizational capacity.

### D. Employment of Fundraisers

(1) Fundraising personnel, including both employees and independent consultants, should not be compensated based on a percentage of the amount raised or other commission formula.

(2) When using the services of paid fundraising professionals, organizations must only use the services of professional solicitors and professional fundraising counsel that are properly registered with the Bureau of Charitable Organizations of the Commonwealth of Pennsylvania.

(3) Organizations must exercise control over any staff, volunteers, consultants, contractors, other organizations, or businesses that are known to be soliciting contributions on behalf of the organization.

## VIII. PUBLIC AFFAIRS AND PUBLIC POLICY

Charitable nonprofits provide an important vehicle through which individuals organize and work together to improve their communities. Charitable nonprofits should represent the interests of the people they serve through public education and public policy advocacy, as well as by encouraging board members, staff, volunteers and constituents to participate in the public affairs of the community.

### A. Public Policy Advocacy

(1) Charitable nonprofits should have a written policy on advocacy defining the process by which the organization determines positions on specific issues.

### B. Public Education

(1) Charitable nonprofits should ensure that any educational information provided to the media or distributed to the public is factually accurate and provides sufficient contextual information to be understood.

### C. Promoting Public Participation

(1) Charitable nonprofits engaged in promoting public participation in community affairs must be diligent in assuring that the activities of the organization are strictly nonpartisan.

Amended:     September 2004  
                  June 2007  
                  September 2009

Special thanks to the following for their  
endorsement of the Standards for Excellence Program in PA

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