A GUIDE TO FISCAL STEWARDSHIP: PREVENTING AND MITIGATING FINANCIAL MISMANAGEMENT AND FRAUD

A Resource for Grantmakers and Public Charities

Updated as of August 2024
This information is provided by Ask CMF, a technical assistance service of the Council of Michigan Foundations, for educational purposes only and does not constitute legal advice.

This resource is intended to explore frequently asked questions involved in preventing and managing through challenging operational and grantmaking situations, primarily around situations of financial mismanagement and fraud. While every situation is unique, this document contains general guidance that may provide a starting point for grantmakers facing this type of crisis internally or in connection to a foundation partner. This resource may also be of benefit to nonprofit organizations broadly, as much of this content is relevant for all sector leaders working together in support of their communities.

In Case of an Urgent Institutional Situation:
Foundations encountering a situation of potential financial management or fraud, or other cases of immediate legal concern, should first contact their legal counsel to assess how best to proceed.

For questions regarding grantmaking and operations of the foundation, CMF members can reach out to Ask CMF, the technical assistance service of the Council of Michigan Foundations, available at: https://www.michiganfoundations.org/practice/ask-cmf. Additional resources are available to CMF members via the Knowledge Center (https://www.michiganfoundations.org/resources/) and Sample Documents Hub (https://www.michiganfoundations.org/sampledocs/).

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TYPES OF FINANCIAL MANAGEMENT ISSUES

While the general response to address issues of financial mismanagement, fraud and theft may be the same, these terms describe different concepts:

- Financial mismanagement includes situations where a person or group's actions unintentionally lead to the loss of financial resources.
- Fraud includes situations where a person or group intentionally misleads others into losing something of value, oftentimes through manipulation or deception.
- Theft involves a person or group permanently and intentionally taking property, belongings or money from a person or organization.

REPORTING FRAUD AND SCAMS

How can the foundation report an instance of alleged financial mismanagement, fraud or theft?

If a foundation believes funds have been mis-spent (not in accordance with the law), remember that private foundations have a legal obligation to try to recover funds, and public charity funders, such as community foundations, have a duty to oversee their grantmaking in a manner that ensures funds are spent for a charitable purpose. Legal counsel should be consulted to assess the situation. The funder and the grant recipient may be able to negotiate a solution, which may arise from misunderstanding or miscommunication as opposed to bad faith.

When theft or fraud is suspected, whether internally or at a partner organization, the foundation should immediately reach out to legal counsel. These situations can involve a myriad of legal issues, such as employment law (i.e., handling an investigation when an employee is involved), fiduciary duties of the board, notifications to insurance companies, potential notification of the relevant legal authorities, etc..

The next steps that are advised will depend entirely upon the particular circumstances and cannot be simplified into a "one-size-fits-all" solution. As general guidance, the foundation will want to suspend destruction of records (under its record retention policy). Additionally, once the board has been made aware of the activity in question, board and staff members should be reminded of their duty of confidentiality and should be directed not to make any public statements about the situation.

How can the foundation report a scam, fraud or cyber scam activity?

In recognition of "fake charity" scams and other fraud situations that have surfaced throughout the nation and globally, foundations are advised to be cautious in vetting charitable giving and grantmaking opportunities, especially before making an online gift or a grant outside of the foundation's regular grantmaking procedures.

If the foundation has encountered or become the victim of a scam or attempted fraud related to a recent disaster, please contact the National Center for Disaster Fraud (part of the U.S. Department of Justice) hotline at 866-720-5721 or submit a NCDF Disaster Compliant Form.

Cyber scam activity can be reported online through the FBI's Internet Crime Compliant Center.

Complaints may also be filed with the Michigan Attorney General, by mail or online: Department of Attorney General, Charitable Trust Section, P.O. Box 30214, Lansing, MI 48909. Online complaints may be submitted to: https://secure.ag.state.mi.us/complaints/consumer.aspx.

FINANCIAL MISMANAGEMENT AND FRAUD

How can grantmakers (and/or their grantees) avoid or mitigate financial mismanagement or fraud?

Foundations and other nonprofit organizations can create policies and procedures that are intended to help avoid or mitigate a situation of financial mismanagement or fraud. The following are some examples that organizations may use, although policies and procedures may vary widely from one institution to another. Even if wrongdoing still occurs, adopting and following prudent policies designed to guard against such activity will go a long way toward protecting directors and officers of the organization from claims that they breached their fiduciary duties. It is essential that staff and trustees are provided with an overview of these and other policies and procedures as part of their onboarding, with periodic refresher training provided to re-orient them to these important documents.

- **Audits**: An audit is designed to verify the accuracy of the organization's financial statements and test the internal controls. Hiring an audit firm to conduct an audit on the foundation or requiring audited financials for an applicant is a common way to help mitigate situations of financial mismanagement or fraud. However, it is not a guarantee because an audit does not involve a careful examination of every financial transaction, and it is possible for fraud to occur within an organization with a clean audit.

- **Board Policies**: Develop written policies outlining the board's (and/or board committees') responsibilities for fiscal oversight and fraud protection, including managing conflicts of interest and investigating any warnings or reports of thefts or mismanagement, as well as their obligation to report misconduct to appropriate authorities.
- **Following Proper Accounting Standards**: A nonprofit organization should have required internal controls in place as part of conducting proper accounting practices. The following are three such examples:
    - Segregation of duties is a critical control that recognizes no single person (board or staff member) should be responsible for all steps of a transaction. There should be at least two people involved, whether an executive director and finance department employee, or a staff person and board member. For organizations with few or no staff, note that this pairing can include a hired firm/contractor and an organizational representative (including a volunteer board member).
    - Maintaining an approved vendor list enables the board and staff to check payments against such lists on a monthly basis. If a payment is made to a vendor not on the approved list, that payment should be examined. This process can help prevent one common fraud technique of creating a fictitious vendor account.
        - Tip: In the monthly listing of payments, make note of any payment going to a vendor that appears to be on the approved list but with a typographical error in their name (i.e., Office Maxx instead of Office Max); this action can be a fraud technique.
    - Controlling access to bank accounts, financial statements and invoicing software is crucial. Even if many individuals on staff need access to such software to input information, be sure permissions are controlled so that administrator-level access is limited.
- **Personnel Policies**: Staff should be aware (via an anti-fraud policy or something similar) that the organization has zero tolerance for unethical or illegal behavior of any individual involved in the organization, including staff, board members, volunteers and committee members. Some organizations also have an ethics policy, code of conduct and/or personnel manual that describes the expectations of individuals working in or with the organization and the process for reviewing or reporting questionable situations.
- **Whistleblower Policy**: Organizations should have a whistleblower policy in place which states that fraud is not tolerated and outlines a clear, confidential and safe reporting process. In cases where the CEO may be involved or not taking claims seriously, the reporting process may direct staff members to contact the board with their concerns.
    - Tip: Outsourced whistleblower hotlines are available as a paid service. Whistleblower complaints tend to increase significantly with an outsourced solution because employees feel more confident about their ability to remain anonymous.
- **D&O and Other Insurance**: Consider purchasing Directors and Officers (D&O) insurance, which is designed to protect board members and key staff against claims of financial mismanagement and other problems that may not be covered under a general liability policy for the organization. Many organizations also maintain a policy to cover employee theft.

In the case of small foundations or nonprofits with few staff or board members, it is important that more than one person has appropriate visibility and access to the organization's finances and

operations. This is helpful not only in helping to avoid fraudulent activity, but also in the event of unexpected staff or board changeover. For example, family foundations may rely on a specific family member or other board member to manage the grant and/or financial records. If these individuals need to step away due to health reasons or extenuating circumstances, remaining board members may otherwise have little to no understanding of how the organization operates, where/when to submit required forms, its current financial situation, etc.

Does an audit guarantee against financial mismanagement or fraud?

Grantmakers frequently require their applicants or grantees to submit an audit, either in the form of audited financials or a letter of opinion. Likewise, grantmakers may regularly conduct an audit of their own financials. An audit is an example of a good internal control that can help to prevent theft, create an atmosphere of accountability, ensure compliance and demonstrate the organization's credibility and reliability as a financial steward.

While audits are a common practice in the field and legally required in some instances (i.e., for recipients of government grants or charitable organizations that receive a certain threshold of contributions), they are not a guarantee against financial mismanagement or fraud. Instead, they sample the accuracy of the organization's financial statements and test internal controls based on a monetary threshold.

Figure 1: Fraud Triangle. Source: Association of Certified Fraud Examiners.

Anti-fraud professionals and researchers use the "fraud triangle" to predict and examine situations where fraud can and does occur. As shown above (Figure 1), this triangle – developed by criminologist Donald R. Cressey – identifies three elements that could lead an individual to engage in fraud: motivation/financial pressure, opportunity and rationalization. **An audit and internal controls are common strategies to specifically decrease the "opportunity" for someone to commit fraud within an organization.** It is still possible that someone may have the motivation or rationalization to commit

fraud, but decreasing the opportunity element through structural processes in the organization can help prevent fraud and identify an instance of fraud earlier.

Cases of financial mismanagement or fraud can occur through the malicious actions of individuals or by accident. While an audit may make improper accounting practices more apparent, an audit is less likely to result in catching intentional cases of theft from the organization. This is particularly true if an individual is systematically stealing from the organization and intervening in financial processes that may result in incorrect or falsified financial statements and other documentation designed to mask their activities.

Audits also require the engagement of boards working directly with auditors, rather than depending on staff to manage the audit activity and conversations. The audit process offers the board an opportunity to discuss future improvements to fiscal management and operations, which may be key to preventing fiscal mismanagement or fraud.

In recent years, audits have become a significant barrier for many nonprofits, due to the rising cost and decreasing number of qualified auditors who serve the nonprofit sector. This shared challenge for both grantmakers and grantees offers an opportunity to think critically about the role of audits and whether this is a reasonable application requirement, especially for smaller organizations. In some cases, this conversation has led foundations to examine alternative strategies to conduct necessary due diligence while using the process to ensure that necessary policies and procedures are in place to prevent financial mismanagement and fraud at these smaller nonprofits.

What best practices related to audits can help prevent financial mismanagement or fraud?

There are two key practices that can help strengthen the impact and benefit of an audit: review of the governance letter and regularly reviewing the audit firm.

For purposes of issuing their audit report, auditors review internal controls with an eye toward whether there is a “material weakness” over financial reporting that would bring into question the reliability of financial reporting and the preparation of financial statements. An issue would have to be fairly substantial to rise to the level of being named a material weakness, and unless that level is met, the audit report will not divulge anything about internal controls. However, the governance letter – separate from the general audit report – is generally much more telling. The governance letter provided by the auditors points out processes that the organization could improve before they become material weaknesses, often regarding internal controls and operating inefficiencies. As such, it is important to review not just the audit report, but the management letter, as well.[1]

While nonprofit organizations are not required to rotate their audit firms or partners, it is common practice to consider rotating the audit partners or obtaining competitive bids for pricing every five years. This practice, often conducted via a Request for Proposals (RFP) process, can help increase auditor independence and provide a fresh perspective on an organization’s finances. Please note that auditing

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[1] Please note that what is defined as a “material weakness” or a problem worthy of note in the governance letter may vary widely, depending on the size and nature of the organization.

firms may view frequent changing of an organization's audit firm as a red flag for potential fraudulent activity.

It is ideal to find an auditor and related financial professionals with expertise in working with nonprofit organizations and/or grantmakers to help ensure they understand the unique structures of the institution and regulations of the sector.

The audit committee (or an established group of board members) should be responsible for overseeing the audit process and ensuring that the auditor is qualified and conducting the audit properly. The audit findings should be reported to the full board, as every board member has a legal, fiduciary duty to the organization. The audit committee should also regularly meet with the audit firm without management present to allow the board/committee to make inquiries directly to the auditors. This meeting can take place both before and after the audit occurs.

RISK MANAGEMENT AND FOUNDATION OPERATIONS

What types of operational policies can organizations develop in advance of a crisis?

Financial mismanagement and fraud situations are two forms of crisis that can impact an organization. Additionally, disasters may lead to an increased likelihood of financial mismanagement or fraud and an increased dependency on crisis planning. Leadership and staff can implement a variety of risk management strategies to help address or mitigate the impact of these crises on the organization. The following operational policies can help an organization's personnel to address issues that arise as a result of the detection of fraud, financial mismanagement or other form of crisis.

- **Business Continuity Plan**: The foundation should have a plan in place to ensure that the organization's critical operations continue to function in case of a crisis. It may include information related to standard operational functions, essential recordkeeping and data, and employee contacts.
- **Disaster Recovery Plan**: A disaster recovery plan may focus exclusively on data and information systems that should be backed up, recovered or restored in case of an emergency.
- **Succession Plan**: This plan should include an outline of emergency/short-term plans for leadership staff and board members, particularly in the case that an executive resigns or is otherwise unable to carry out their responsibilities. Recognizing that an emergency may involve the executive director or a sole staff member, a copy of this material should be kept in a known location and/or with the current board chair.
- **Crisis Communications Plan**: This plan ensures staff and applicable volunteers have a clear, shared understanding of appropriate organizational procedures in the face of a potential crisis. The plan may include emergency contact information, a calling tree, sample communication protocols and procedures specific to a variety of emergency situations (i.e. severe weather, office closures). A crisis communications plan should also identify who speaks on behalf of the organization in a crisis, typically the CEO/executive director or the board chair or other designated board member. Staff and trustees should be aware of the need to maintain confidentiality as well as the fact that they should not make statements on behalf of, or

regarding, the organization or any particular situation without first going through the proper communications channels.

- **Discretionary/Disaster Grantmaking Policy**: Situations of financial mismanagement, fraud or disaster may lead to the need for additional or unusual grants being made by the foundation. This policy outlines under what conditions exceptional grants may be made to address crisis or disaster situations. This policy typically addresses the process to review and approve these grants. Foundations should proactively explore forms of local "crises" that may be relevant for disaster or discretionary grantmaking while also understanding the potential implications of an increased payout or discretionary grantmaking strategy.
- **Technology and Cybersecurity Policies**: Some threats to organizations can result from scams and theft originating from internal or external persons using computers and internet-based services to infiltrate the organization. Policies covering the use and protection of data, cybersecurity procedures and training, and access to databases and software packages should be kept up-to-date and have enforcement mechanisms built into them. Organizations should also have the means to remove access for personnel who have left the institution and restrict access appropriate to an individual's role and responsibilities.

Specific questions regarding an institution's operations (whether planned in advance or in the midst of a crisis situation) should be directed to the organization's external counsel. Qualified legal counsel, financial auditors and other counsel are knowledgeable about how to adapt the organization's processes and regulated activities to the challenges of a specific crisis.

For more information about best practices and legal requirements for private foundations and public charity grantmakers, see CMF's separate resource "An Operations Checklist for Foundation Compliance."

What is the role of the foundation's board in responding to a crisis?

According to colleagues at BoardSource, board members have numerous responsibilities in preventing and addressing the impact of a crisis on their organization.

Board members have a duty of care to the foundation, which means they should actively support and be engaged in the organization's work, especially during a crisis situation. The board has the ultimate responsibility for the organization and should be making strategic decisions that safeguard the organization and further its mission and grantmaking.

Whether the foundation has few or many staff members and regardless of its relative asset size, the board may be involved in the following areas:

- **Risk Assessment and Management:** The board should assist the CEO with determining internal and external risks associated with a crisis situation, including its impact on key stakeholders (i.e., staff, donors, volunteers) and the financial health of the institution. With that information in mind, the organization can then develop an appropriate plan for managing those risks.
- **Finances and Investments:** In some cases, and especially in instances of fraud and theft, a crisis can have a direct impact on the finances of individual organizations, even endowments. Boards may be called upon to make important decisions around the organization's finances and investments. For foundations, these discussions also involve determinations around payout

rates for grantmaking, especially if there is a higher demand for philanthropic funding by local nonprofit partners impacted by the event.

- **Board Meetings and Decision-Making Practices:** In the case of a crisis that impacts the local region served by a foundation, board business is likely to not only continue but increase significantly to be responsive to emerging and evolving needs. Many grantmakers and partner nonprofits face increased demands on staff and board members in helping with crisis response, oftentimes resulting in more frequent meetings and decisions around policies and grantmaking. Organizations should have redundant communications systems in place in the event the organization's email or portals are not functional. Board members should be trained on how to access these systems in a crisis.
- **Communications:** Board members serve as ambassadors for the foundation and play an essential role in crisis communications by sharing with management what they are hearing on the ground and sharing back through their networks information that the foundation has prepared for dissemination. Organizations should remind their board members of their duty of confidentiality as well as the fact that they should not make statements on behalf of, or regarding, the organization or any particular situation without first going through the proper communications channels.
- **Continual Assessment:** With the evolving nature of any crisis situation, board members should work together with the CEO to ensure the foundation responds appropriately to emerging challenges and information, maintaining appropriate lanes to allow the CEO to do their job effectively. This assessment should also include the board's evaluation of its own performance. It should have an ethics policy, code of conduct and/or personnel manual that describes the expectations of individuals working in or with the organization and the process for reviewing or reporting questionable situations.

How can our foundation think through the complex issues of spending policies, payout rates and grantmaking strategy in response to a crisis situation?

In response to financial mismanagement or fraud, some foundations may choose to reconsider their existing grantmaking strategies and grant budgets. While many funders follow a 5% minimum distribution requirement even under crisis conditions, others choose to make grants beyond that level. This may mean that resources to some nonprofits become less available. A similar effect can be felt during natural or manmade disasters, when a foundation may alter their grantmaking strategies to help resolve that crisis. In any of these situations, foundations should consider these challenges on a case-by-case basis and understand the implications of grantmaking decisions on their own finances and those of nonprofit partners.

In situations of theft or financial mismanagement by a grantee, foundations should carefully assess whether the nonprofit has the structure(s) in place to receive additional grants. Some nonprofits may choose an external organization to manage its donations and projects during a time of crisis. These situations should be handled on a case-by-case basis. Funders should also consider how providing additional funding to a grantee to make up for lost funds may impact other applicants and grantees, especially in situations where the foundation has a limited amount of available funding per grant cycle.

In considering increased payout rates, even in the short-term, foundations may face complex financial considerations. The Council of Michigan Foundations partnered with the Johnson Center for

Philanthropy to develop [reports]() that explore the issue of payout rates for both private foundations and community foundations, including in situations that temporarily or permanently increase their payout rate. These reports may be useful tools for foundations considering the long-term impact of increasing payout rates in response to crises.

The private foundation excise tax was modified to a new flat rate of 1.39% as of December 20, 2019. Before the enactment of the flat rate tax, a foundation's tax rate varied based on the amount of grants given each year. The advantage of the new 1.39% tax rate is that foundations can give the same or more in total grant amount in a single year, allowing for more flexible grantmaking from year to year. In the case of a crisis, foundations can use the new flat tax rate to increase grantmaking amounts within a single year (or several year period) without being penalized in future years.

RISK MANAGEMENT IN GRANTMAKING

What elements of the grant application process and grant agreement are most relevant for due diligence and fraud prevention?

While grantmakers are oftentimes interested in streamlining the grant application process and reducing the amount of paperwork requested of grantees to ultimately reduce the burden on nonprofit partners, some elements of the grant process and related documentation are key for proper due diligence and also important in protecting the nonprofit from harm.

For example, foundation staff should confirm a grant applicant's 501(c)(3) status via the IRS Tax Exempt Organization Search Tool (https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations). It is possible for a long-time grantee to lose their tax-exempt status. This type of basic due diligence can help ensure the foundation remains in compliance and maintains a good reputation with its local nonprofit community.

As another example, foundations should review the language in their grant agreements, specifically how the agreement describes any circumstances wherein grant funds (or the unspent portion thereof) must be returned. In the case of multi-year grants or grants paid in installments, there should be some flexibility for the funder to not make additional payments if concerns arise. Typically, the grant agreement stipulates that funds are to be used for the intended charitable purposes outlined in the grant application.

In reviewing grant application materials, foundation personnel should identify any board members, staff members or other individuals (or institutions) who may have a conflict of interest or present a self-dealing concern for the funding organization.

Foundations should regularly review their policies and ensure that conflict of interest documentation is updated annually. Please note that, while an individual may have a conflict of interest, that does not necessarily prohibit a grant from being considered for funding. Instead, many conflict of interest policies indicate that individuals with conflicts follow a required set of stated procedures, i.e., recusing themselves from making key decisions about specific grants under consideration. For more information,

see the next question in this document, “How can the foundation’s personnel learn more about issues related to conflicts of interest, self-dealing and excess benefits transactions?”

If during the application review process, a staff member, trustee or committee member has hesitation or a concern, those issues should be raised for discussion. Foundations benefit from review prior to making a grant; once a grant is made, it can be much more challenging to ensure that funds are used as intended.

Foundations should also balance risk management in the grantmaking process with consideration of the organization’s values and strategy. For example, funders should avoid building grant application systems that can only be navigated by large organizations and instead consider how to design their grantmaking process to reach the intended groups that they serve. In some cases, that may mean that smaller organizations are offered alternative means to satisfy essential criteria, such as substituting a required audit with financial statement reviews or compilations and proof of necessary policies and procedures designed to prevent financial mismanagement and fraud.

For more on the due diligence involved in the grantmaking process, see CMF’s separate resource, “The Basics of the Grantmaking Process and Due Diligence.”

How can the foundation’s personnel learn more about issues related to conflicts of interest, self-dealing and excess benefits transactions?

In developing policies and procedures that manage risk for grantmakers and nonprofits, the topics of conflicts of interest, self-dealing and excess benefits transactions are particularly relevant when considering how to limit risk and navigate potential challenges. These three issues inherently address situations where an individual could place their own interests ahead of the foundation. Board members of nonprofits and grantmaking organizations have a legal, fiduciary duty to place the foundation’s interests ahead of their own.

All 501(c)(3) organizations are prohibited from providing private benefit. Prohibited excess benefits transactions mainly apply to public charities, while private foundations are strictly prohibited from engaging in self-dealing. Additionally, conflicts of interest are those situations where an individual’s role overlaps with their activities and depends on the organization’s policies and procedures to navigate appropriately.

To learn more about issues of excess benefits transactions and self-dealing, see the CMF resource, “What Boards and Executives Need to Know About Self-Dealing.” For information related to conflicts of interest, see the CMF resource, “What Boards and Executives Need to Know About Conflicts of Interest.”

How can foundations and nonprofits collaborate to manage risk and prevent fraudulent activity in the sector?

Both foundations and nonprofits are responsible for managing risk and preventing forms of financial mismanagement and fraud in their organizations and in their partner relationships. These individual efforts contribute to the sector’s collective efforts to lead and act with integrity. Instances of fraud can negatively impact not only the institution itself, but also donors/funders, grantees, volunteers and

partners, as well as the field as a whole. These situations can ultimately lead to a decline in public trust in the sector overall.

Foundations and nonprofits are encouraged to support their network of partners in preventing fraud. As one example of this practice in action, foundations and nonprofits can come together for education sessions and to share resources. Laws change, and even those "in the know" need to stay current and participate in refresher trainings. These are opportunities to support one another in making sure the sector knows the rules and regulations when they first come into the field and stays up to date on them.

As another example, grantmakers can explore avenues to support nonprofits in implementing good fiscal management practices within their organization, i.e., providing unrestricted or general purpose grants to support operational improvements. Robust systems and ongoing training, which require an investment, are key in preventing financial mismanagement and fraud and can help an organization maintain strong relationships and the continuation of flexible funding.

Managing risk involves developing robust relationships between grantmakers and nonprofits. Strong networks and relationships help to build trust and support open lines of communication, allowing for more transparency around one another's needs, concerns and challenges. Honest conversations between grantmakers and grantees can result in more impactful partnerships, creative and more sustainable solutions, increased support for general operations and other expenses necessary for projects to succeed, and more. For example, candid discussions regarding the true costs of conducting a grant-funded project can lead to increased understanding of the expense involved in reporting, staffing and audits.

Organizations with insufficient staffing, policies or understanding of accounting standards may be more likely to encounter a situation of financial mismanagement or fraud. Foundations can use this information to consider how to adapt their grantmaking strategy and procedures to better serve the organizations that they fund.

There are many ways to both foster relationship building and conduct necessary due diligence as part of the grantmaking process. For example, foundation staff who are tasked with reviewing grant applications (typically program officers) can meet with nonprofit staff in person or virtually to not only get a more complete picture of the potential grantee's ability to carry out its intended grant program but also engage in conversation about the nonprofit's goals and barriers to meeting them. In some cases, these conversations have led to innovative approaches in program development, new feasibility plans and other efforts that can increase the success of projects. As another example, grantmakers and grantees can exchange key connections and informational resources, helping one another to identify qualified legal counsel, consultants, auditors/accounting firms and other technical assistance providers, as well as sector peers.

As part of building authentic relationships, foundation staff should be willing to share any concerns with potential grantees, especially if in their due diligence they discover problems that can be resolved for future grant cycles. This not only makes for a stronger applicant pool, but also offers important (and sometimes essential) feedback that can strengthen the nonprofit and its capacity and capability to serve the community. Foundations should also make themselves open to feedback about their processes and

ways of working and engaging to ensure they are serving as high quality partners. In situations where organizations are cooperating, rather than competing, this is an optimal time to have candid discussions about legal requirements and best practices alongside exploring opportunities for capacity building and strategic growth.

Managing risk and preventing forms of financial mismanagement and fraud ultimately requires transparency and a shared understanding of how to navigate these scenarios by everyone working in the sector.

RECOMMENDED RESOURCES

BoardSource. "Crisis Communications: Four Things Your Board Needs to Know." https://boardsource.org/crisis-communications/.

Center for Disaster Philanthropy. "Crisis Communications." https://disasterphilanthropy.org/resources/crisis-communications/.

Center for Disaster Philanthropy. "Disaster Philanthropy Playbook." https://disasterphilanthropy.org/disaster-philanthropy-playbook/.

Council of Michigan Foundations. "An Operations Checklist for Foundation Compliance: Legal Requirements and Operational Best Practices for Private Foundations and Public Charities." 2022. https://www.michiganfoundations.org/resources/operations-checklist-foundation-compliance.

Council of Michigan Foundations. "Choosing a Corporate Philanthropy Approach." 2021. https://www.michiganfoundations.org/resources/choosing-corporate-philanthropy-approach.

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Council of Michigan Foundations. "Frequently Asked Questions About Fund Agreements: A Resource for Community Foundations and Public Charities Holding Component Funds." 2022. https://www.michiganfoundations.org/resources/faqs-about-fund-agreements.

Council of Michigan Foundations. "Options for Your Financial Giving." 2021. https://www.michiganfoundations.org/resources/options-your-financial-giving.

Council of Michigan Foundations. "What Boards and Executives Need to Know About Conflicts of Interest." 2023. https://www.michiganfoundations.org/resources/what-boards-and-executives-need-know-conflicts-interest.

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ABOUT ASK CMF

This document was authored by Brittany Kienker, Ph.D., Knowledge Insights Expert in Residence for the Council of Michigan Foundations (CMF). Legal aspects of this document were reviewed by Jennifer Oertel, outside legal counsel to CMF. CMF members can find answers to their most pressing questions through CMF's Knowledge Insights division, including Ask CMF, the Knowledge Center and the Sample Documents Hub. Ask CMF is a free service to CMF members, available through the "Ask CMF" link on the CMF homepage or by visiting https://www.michiganfoundations.org/practice/ask-cmf.

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