



RISK MANAGEMENT FOR ARTS ORGANIZATIONS

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AGENDA

- **QUICK QUIZ:** How well do you know your risks? (15 min.)
- **GROUP EXERCISE:** Assessing the risks your organization faces (35 min.)
- **GROUP DISCUSSION:** 5 risk questions for Boards to consider (15 min.)

QUESTION 1

In what cases are Board Members of organizations potentially personally liable even when indemnified by by-laws and even when D&O insurance is obtained?

- PERSONAL ASSAULT/HARASSMENT
- DISCRIMINATION
- WRONGFUL DISMISSAL
- SIGNED A PERSONAL GUARANTEE
- FAILURE TO WITHHOLD TAXES/FILE RETURNS
- IF YOU CO-MINGLE OR DIVERT FUNDS
- IF YOU INTENTIONALLY COMMIT A HARMFUL OR ILLEGAL ACT

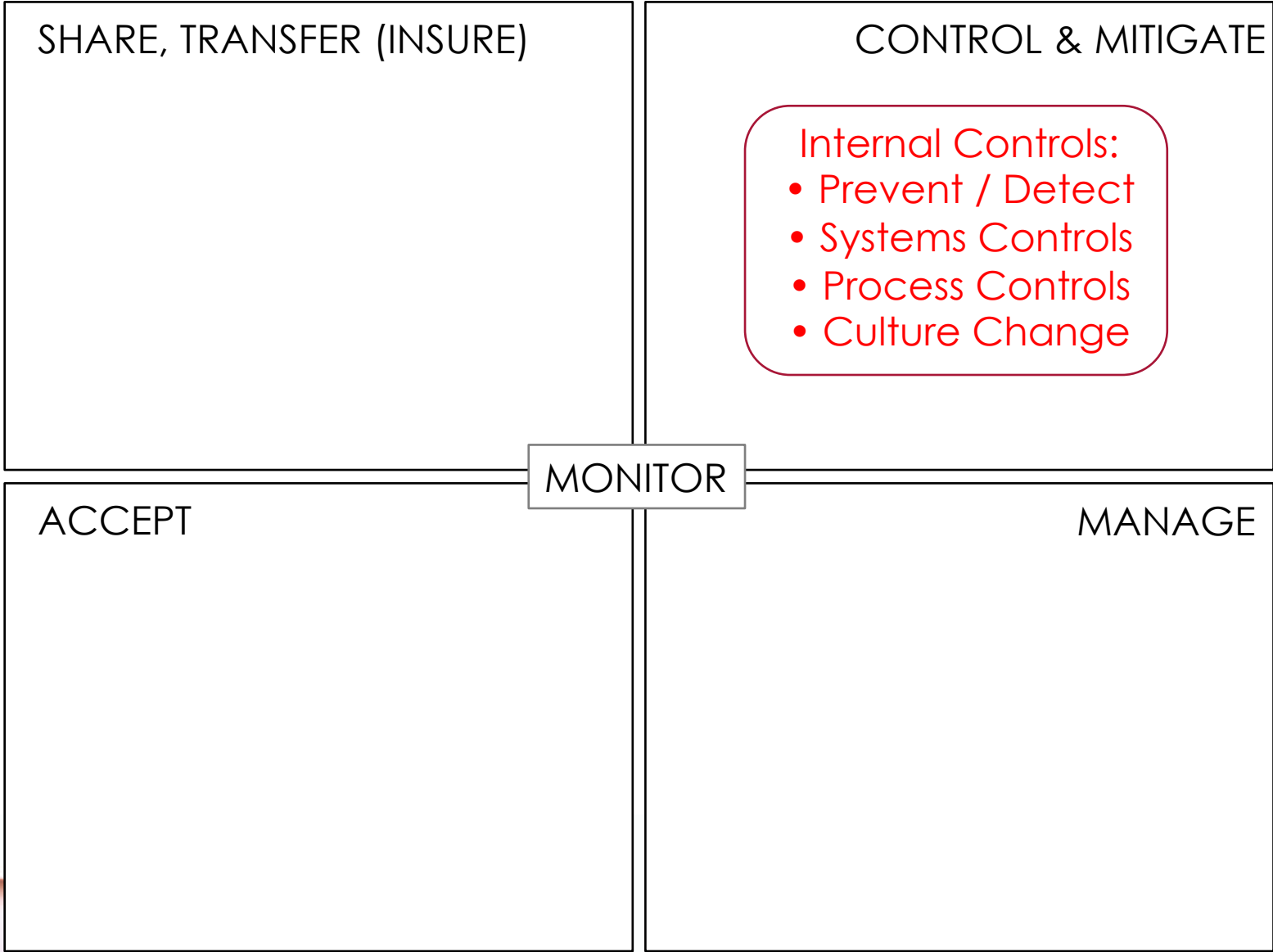




QUESTION 2

What do you call the steps organizations put in place to deal with risks that are high in both probability and impact?

LOW IMPACT IF PROBLEM OCCURS (\$) HIGH



LOW LIKELIHOOD OF PROBLEM OCCURRING (%) HIGH



QUESTION 3

What is the meaning of “fiduciary duty”?

LEGAL DUTY OF THE BOARD TO
MANAGE MONEY, PROPERTY AND
OPERATIONS OF AN ORGANIZATION
WITH THE UTMOST CARE.





QUESTION 4

What are the three most common types of lawsuits filed against small organizations?

WRONGFUL DISMISSAL

BREACH OF CONTRACT

ACCIDENTS/PERSONAL INJURY SUITS



QUESTION 5

In a recent survey, what % of small organizations had suffered at least one fraud since they were incorporated —

8%,

18%,

38% or

58%?

38%



QUESTION 6

What was the average amount of the frauds reported by small organizations —

\$25k,

\$50k,

\$100k,

\$200k, or

\$500k?

\$200K





QUESTION 7

What kind of fraud is a “write-off scheme”?

WRITING OFF A RECEIVABLE AS A
BAD DEBT AND THEN POCKETING
THE CASH RECEIVED



QUESTION 8

Postponing payment of overdue bills at the end of the year or the end of a fiscal quarter in order to inflate the reported cash balance is called _____?

WINDOW DRESSING



QUESTION 9

Stealing cash by pocketing cheques from one customer, and then covering it by crediting a later cheque from another customer to the first customer's accounts receivable account, is called _____?

LAPPING





QUESTION 10

What are the top 5 most common types of fraud in small organizations?

1. FAKE INVOICES;
2. SKIMMING CASH BEFORE IT GETS INTO ACCOUNTS;
3. THEFT OF INVENTORY & SUPPLIES;
4. CHEQUE TAMPERING;
5. FAKE/INFLATED EXPENSE REPORTS





QUESTION 11

Why do risks associated with partnership (unincorporated) organizations require special attention?

WITHOUT INCORPORATION,
MEMBERS/PARTNERS ARE JOINTLY
AND SEVERALLY LIABLE I.E. THEIR
RISK IS NOT LIMITED TO THEIR % IN
THE ORGANIZATION





QUESTION 12

According to the US Nonprofits Assistance Fund, how much cash should a typical small non-profit maintain in its reserve fund?

AMOUNT EQUAL TO
3-6 MONTHS' EXPENDITURES



GROUP EXERCISE: AT YOUR TABLE:

1. REVIEW THE 27 TYPES OF RISK ARTS ORGANIZATIONS TYPICALLY FACE
2. AGREE, AS A GROUP, WHICH QUADRANT EACH OF THE RISKS BELONGS IN FOR YOUR ORGANIZATION(S)
3. PLACE THE CORRESPONDING POST-IT NOTE ON THE MATRIX IN THAT QUADRANT

GROUP DISCUSSION QUESTIONS

1. CODES OF CONDUCT:

- a) Does your organization have a Code of Conduct?
- b) What is your process for getting employees and volunteers up to speed on proper processes, controls and your code of conduct?
- c) Does your Code of Conduct adequately mitigate your risk?
- d) Is it communicated, enforced, have significant deterrent value and does it encourage appropriate whistle-blowing?

GROUP DISCUSSION QUESTIONS

2. RESERVES:

- a) Are your organization's cash and financial reserves sufficient to handle disasters, discontinuities and other potential losses?
- b) Do your current procedures ensure you stay on top of this?
- c) What is your policy for investing these reserves?

GROUP DISCUSSION QUESTIONS

3. INCIDENT & DISASTER PREPAREDNESS:

- a) Are you prepared for a major larger-scale crisis (eg earthquake, epidemic) or will you just have to suspend operations if one occurs?
- b) What would the impact of this be, financially, operationally and in terms of your potential liability?
- c) Do you have a preparedness plan and a continuity plan?
- d) Do your employees and volunteers know what to do if there is a fire, accident or other incident on the premises, and how to handle complaints that could affect your reputation or liability?

GROUP DISCUSSION QUESTIONS

4. BOARD/STAFF/VOLUNTEER COMMUNICATION:

- a) Is there regular opportunity for contact and discussion between staff below the senior executive level, volunteers, and Board members, to ensure transparency of concerns and knowledge of their activities?
- b) Does the culture of your organization encourage candid communications between Board members, staff and volunteers on matters such as personality conflicts, inappropriate behaviour, morale, opportunities to improve processes, and innovative ideas for programming?

GROUP DISCUSSION QUESTIONS

5. INSURANCE ADEQUACY:

- a) Does your CGL insurance cover "advertising injury", personal injury, slander/libel, breach of contract, special event injuries/accidents, auto accidents and other events occurring while employees/volunteers carry out their duties?
- b) Do you have adequate Directors' & Officers' insurance?

GROUP DISCUSSION QUESTIONS: SUBJECTS

1. CODES OF CONDUCT
2. RESERVES
3. INCIDENT & DISASTER PREPAREDNESS
4. BOARD/STAFF/VOLUNTEER COMMUNICATIONS
5. INSURANCE ADEQUACY

THE 22 BIGGEST RISKS FOR ARTS ORGANIZATIONS

REPUTATION risks:

1. Loss of a major source of operations or capital/project funding (MAJOR FUNDING SOURCE LOSS)
2. Actual or alleged employee or volunteer misconduct or abuse (MISCONDUCT CLAIM)

COMPLIANCE risks:

3. Unauthorized use of restricted funds (RESTRICTED FUND MISUSE)
4. Failure to file essential information returns or remit payroll deductions (FAILURE TO FILE/REMIT)
5. Inadvertent breach of contract by organization representatives with artists or suppliers (BREACH OF CONTRACT)

FINANCIAL risks:

6. Sudden drop in the market value of investments (INVESTMENT LOSSES)
7. Unsuccessful fund-raising projects (FUND-RAISING FAILURES)
8. Fraud: skimming cash/inventory/supplies, false invoices/requisitions, altered cheque amounts or payees, mis-coding, favouritism/kickbacks, unrecorded liabilities (FRAUD)
9. Unintended material accounting or reporting error (ACCOUNTING ERRORS)
10. Theft of cash or equipment at an event or from the office (CASH/EQUIPMENT THEFT)

STRATEGIC/GOVERNANCE risks:

11. Irrelevance because programs or services are no longer valued by community or its changing demographics (IRRELEVANCE)
12. Failure of a major construction or other project or strategic initiative (MAJOR PROJECT FAILURE)
13. Loss of a key person due to burnout, accident or transfer (KEY PERSON LOSS)

OPERATIONAL risks:

14. Theft of artworks under the organization's stewardship (ARTWORK THEFT)
15. Destruction, deterioration or defacing of art, especially in public places (DESTRUCTION OF ART)
16. Approval of an expenditure or contract beyond signer's authorization (UNAUTHORIZED EXPENDITURES)

EXTERNAL risks:

17. Incapacity due to an emergency eg flood, fire or earthquake (FIRE/FLOOD/QUAKE)
18. Excessive increases in rent, utilities, insurance or other costs (RENT/INSURANCE PRICE SPIKE)
19. Accident liability claim against the organization (ACCIDENT LIABILITY CLAIM)
20. Defamation, loss of business, or similar claim against the organization by an artist (LAWSUIT BY ARTIST)

TECHNOLOGY risks:

21. Loss of accounting data or membership list (LOSS OF DATA)
22. Technology failure eg accounting system crash (ACCOUNTING SYS CRASH)