



STANDARDS FOR EXCELLENCE
Pennsylvania Association of Nonprofit Organizations (PANO)

The Standards for Excellence®: An Ethics and Accountability Code for the Nonprofit Sector
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Preamble

Pennsylvania's non-profit sector serves the public interest and plays an essential role in our society and economy. Working constructively to strengthen communities across the Commonwealth, nonprofits enrich our lives in a variety of ways by creating a broad array of benefits to society in fields such as , religious, scientific, economic, health, cultural, civil rights, environment, and education.

Public investment and confidence drive the success of nonprofit organizations. Individuals, corporations, foundations, and federal, state, and local governments add value to the services that nonprofits provide by investing time, resources, and funds. Given their role in society many, including PANO, refer to nonprofit organizations as the Community Benefit Sector.

The Pennsylvania Association of Nonprofit Organizations (PANO) leads Pennsylvania's Community Benefit Sector to achieve its fullest potential. PANO aims to raise the level of accountability, transparency, and effectiveness of all nonprofit organizations to foster excellence and inspire trust. The Standards for Excellence code (Standards, or code) provides a framework and step-by-step guidelines to achieve a well-managed and responsibly- governed organization.

The code builds upon the legal foundations of nonprofit management, governance, and operations to embrace fundamental values such as honesty, integrity, fairness, respect, trust, compassion, responsibility, and transparency. The code consists of six Guiding Principles covering 27 topic areas with specific performance benchmarks that characterize effective, ethical, and accountable organizations. The Institute helps the nonprofit sector operate in accordance with the Standards for Excellence code by providing educational resources, assistance, and a voluntary accreditation process.

PANO encourages all nonprofit organizations to adopt the Guiding Principles of the Standards for Excellence code. By implementing the performance benchmarks in the code, nonprofit organizations will meet the highest ethical standards for effective service in the public interest.

Primarily designed for 501 (c) 3 organizations, the code is applicable for 501 (c) 4's and 6's. These organizations depend on public support and want to be transparent. In the current code some limitations exist on lobbying and political activity for (c) 3's that do not apply to 4's and 6's.

I. Mission, Strategy and Evaluation

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

A. Mission and Impact

- (1) A nonprofit should have a mission statement that is a clear and formal statement of the organization's purpose as defined and approved by the board of directors. The organization's activities should be consistent with its stated purpose.
- (2) A nonprofit should be able to articulate how its mission is supported by a statement of the organization's vision and strategic goals.

B. Planning Strategically

- (1) Nonprofits should engage in on-going long and short-term strategic and tactical planning activities as necessary 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) A nonprofit should periodically revisit its mission (i.e., at a minimum every 5 years) to determine whether the need for its programs or services continues to exist. In light of societal changes and critical strategic issues, the organization should evaluate whether its programs should be modified, expanded, or discontinued to meet the mission.

C. Organizational Evaluation

- (1) A nonprofit should engage in an annual organizational evaluation to ensure that all financial resources and human capital are being used toward fulfilling its mission.

D. Program Evaluation

- (1) A 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, outcomes for program participants, and the relationship of these outcomes to the cost of achieving them. Evaluations should include input from program participants and should monitor the satisfaction of participants.
- (2) Evaluations should be candid, and should be used by leadership to strengthen the organization's effectiveness, and, when necessary, be used to make programmatic changes.

E. Strategic Partnerships

- (1) Nonprofits engaging in strategic partnerships and formal alliances with other organizations should do so within the context of a board-approved policy outlining the goals and parameters of such partnerships. Depending on the type of strategic partnership, Nonprofits should ensure that proper due diligence, agreements, memoranda of understanding, or similar documentation has been thoughtfully reviewed and considered.

II. Leadership: Board, Staff, and Volunteers

Guiding Principle: Nonprofits depend upon effective leadership to successfully enact their missions and programs. Effective leadership consists of a partnership between the board and management, each of which plays an essential role. Understanding and negotiating these shared and complex elements of leadership is essential to the organization's success. A nonprofit's employees and volunteers are fundamental to its ability to achieve its mission.

Board members are in a position of trust to ensure that resources are used to carry out the mission of the organization. An organization's board leadership should consist of volunteers who are committed to the mission and who demonstrate an understanding of the community served. An effective nonprofit board should determine the mission of the organization, establish management policies and procedures, assure that adequate human and financial resources are available, and actively monitor the organization's allocation of resources to effectively and efficiently fulfill its mission. For membership organizations, board members are directly responsible to the members.

Nonprofits should also have executive leadership which carries out the day-to-day operations of the organization, ensures financial and organizational sustainability, and provides adequate information to the board of directors. An organization's human resource policies should address both paid employees and volunteers and should be fair, establish clear expectations, and provide meaningful and effective performance evaluation.

A. Leadership and Governance

(1) Governance and Fiduciary Responsibility

- a. The board should be composed of individuals who are personally committed to the mission of the organization and understand their roles as a fiduciary in performing the legal duties of a governing body.
- b. The board should establish and periodically review the bylaws and policies to ensure the effective governance and management of the organization.

(2) Executive Supervision, Performance, and Compensation

- a. The board should appoint the chief executive, set the executive's compensation, and annually evaluate the executive's performance. In cases where a designated committee performs one of these responsibilities, the decision should be ratified by the full board.
- b. The board is responsible for supporting the functions of the executive, granting sufficient authority, and helping to ensure his or her success in managing the organization.

(3) Board Effectiveness

- a. The board is responsible for its own operations, including periodic (i.e., at least once every two years) evaluation of its own performance.
- b. The board should have stated performance expectations and hold board members accountable for attendance at meetings, participation in fundraising activities, committee service, and awareness of program activities.
- c. The board should establish a rigorous board development strategy for recruiting and selecting new members and ensuring that the board has an appropriate mix of talent, connections to the community, and diversity.
- d. The organization's bylaws should define specific terms of service for board member.
- e. The board is responsible for the orientation, education, and (where appropriate) the removal of board members. New board members should receive an introduction to the Standards for Excellence code.

- (4) Succession Planning and Leadership Development
 - a. The board, in partnership with the executive, should engage in coordinated succession planning and leadership development to ensure a thorough process for recruiting and developing new board, executive, staff, and volunteer leaders.
- (5) Board Member Independence
 - a. Board members of public charities should serve without compensation for their service as board members. They may be provided reasonable reimbursement for expenses directly related to performing their board service.
 - b. The board should have no fewer than five (5) independent and unrelated directors. Seven (7) or more directors are preferable.
 - c. When an employee of the organization is a voting member of the board, the board is responsible for ensuring that the employee will not be in a position to exercise undue influence.
- (6) Board Meetings
 - a. The board should meet as frequently as needed to fully and adequately conduct the business of the organization. At a minimum, the board should meet at least quarterly.
 - b. Board agendas should be strategically structured around decision-making in a way that facilitates efficient, effective, and engaging meetings. Accurate minutes reflecting board and committee actions should be kept and distributed to all board and committee members.
 - c. Committees with decision-making authority should report any committee actions or decisions to the full board. Those decisions must be reflected in the board minutes.

B. Leadership and Operational Management

- (1) Executive Functions
 - a. The executive is responsible for the day-to-day management and operations of the organization. The executive should be committed to the mission of the organization and have the skills necessary to manage the paid and volunteer talent, and financial resources of the organization.
- (2) Supporting the Board
 - a. The executive should support the board's policy and oversight function by providing accurate and timely information and resources to the board.
 - b. The executive should periodically prepare for the board an overview of the compensation structure of the organization and the value of volunteer investments in the organization.
- (3) Organizational and Financial Sustainability
 - a. The executive should consider what human (staff) and financial resources are necessary for organizational sustainability and mission fulfillment. The executive should also assist the board in planning for the organization's future.
- (4) Managing Employees and Volunteers
 - a. Staff and volunteers should be recruited, screened (including required background checks), selected, trained, supervised, evaluated, and recognized appropriately. Staff and volunteers should be oriented to their positions, the organization, and the Standards for Excellence code, and should be provided with appropriate professional development opportunities.

C. Cultural Competency

- (1) A nonprofit's leadership should ensure that the organization has policies, plans, or strategies in place that enable the organization to achieve its mission and interact with people effectively and equitably. .

III. Legal Compliance and Ethics

Guiding Principle: Nonprofits enjoy the public's trust, and therefore must comply with a diverse array of legal and regulatory requirements—Organizations should conduct periodic reviews to address regulatory and fiduciary concerns. One of a leadership's fundamental responsibilities is to ensure that the organization governs and operates in an ethical and legal manner. Fostering exemplary conduct is one of the most effective means of developing internal and external trust as well as preventing misconduct. Moreover, to honor the trust that the public has given them, Nonprofits have an obligation to go beyond legal requirements and embrace the highest ethical practices. Nonprofit board, staff, and volunteers must act in the best interest of the organization, rather than in furtherance of personal interests or the interests of third parties. A nonprofit should have policies in place, and should routinely and systematically implement those policies, to prevent actual, potential, or perceived conflicts of interest. Ethics and compliance reinforce each other.

A. Maintaining Legal Compliance

- (1) Nonprofits must be aware of and comply with all applicable federal, state, and local laws. This may include, but is not limited to complying with laws and regulations related to IRS filing requirements, governance, human resources, licensing, financial accountability, taxation, valuation of in-kind gifts, unrelated business income, document retention and destruction, related entities, data security, accessibility, fundraising, lobbying, and advocacy.
- (2) 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 to the board of directors.

B. Required Public Disclosures

- (1) Nonprofits should have at least one designated person who is responsible for ensuring that the organization is complying with both the letter and the spirit of federal and state laws that require disclosure of information to the public.

C. Reporting Misconduct and Whistleblower Protection

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

D. Conflicts of Interest

- (1) Nonprofits should have a written conflict of interest policy and statement. These should be applicable to board members and staff, as well as volunteers who have significant, independent decision-making authority regarding the resources of the organization. The policy and statement should be executed by covered individuals, both at the time of the individual's initial affiliation with the organization and at least annually thereafter.
 - a. The conflict of interest 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. The conflict of interest statement should provide space for the board member, employee or volunteer to disclose any known interests that the individual, member of the individual's immediate family, or any related business or other entity that has transactions with the organization.

E. Ethics

- (1) Nonprofits should ensure that they have an explicit and clear set of ethical principles and, as appropriate, operational or program standards that have been discussed by their board and staff and that are transparently clear to all stakeholders.
- (2) In rendering its programs or services, a nonprofit should act with the utmost professionalism and treat persons served with respect.
- (3) Nonprofits should provide an effective procedure for problem solving or reporting grievances, including but not limited to, legal or ethical misconduct by the organization's employees and volunteers. The procedure should include actions for addressing and resolving complaints effectively.
- (4) Nonprofits should have policies in place that protect the confidentiality and privacy of personal information.

IV. Finance and Operations

Guiding Principle: Nonprofits should have sound financial and operational systems in place and should ensure that accurate records are kept. The organization's financial and nonfinancial resources must be used in furtherance of tax-exempt purposes. Organizations should conduct periodic reviews to address accuracy and transparency of financial and operational reporting, and safeguards to protect the integrity of the reporting systems.

A. Financial Budgeting, Reporting, and Monitoring

- (1) The board should annually approve the organization's budget and the organization should be operated in accordance with this budget.
- (2) The board should periodically assess the organization's financial performance in relation to the budget. A nonprofit should create and maintain reports on a timely basis that accurately reflect the financial activity of the organization. Internal financial statements should be prepared at least 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) The board should annually review the percentages of the organization's resources spent on program, administration, and fundraising.
- (4) For nonprofits with annual revenue in excess of \$500,000, the annual financial statements should be subject to audit by an independent Certified Public Accountant (CPA). Unless an audit is required by other regulatory bodies, organizations reporting total annual revenues in excess of \$300,000 should be subject to a review by an independent CPA. Organization reporting total annual revenues of \$100,000 should have a compilation of financial statements prepared by an independent CPA. The board should hire the auditor/CPA. The full board should approve the audited, reviewed or compiled financial statements and receive a copy of the management letter (if any). The board should monitor the implementation of the recommendations of the management letter, if applicable.

B. Internal Controls and Financial Policies

- (1) Nonprofits should have written financial policies and procedures that are adequate for the size and complexity of the organization these policies and procedures should

address (a) investment of the assets of the organization, (b) internal control, (c) purchasing, and (d) unrestricted current net assets.

C. Personnel Policies

- (1) A nonprofit should have written board-approved personnel policies and procedures that govern the work, actions, and safety of all employees of the organization. Separate policies covering the same areas should exist for volunteers. The policies should cover the basic elements of the relationship (e.g., working conditions, telecommuting (if applicable), employee benefits, vacation, and sick leave. The policies should address orientation to the organization, employee evaluation, supervision, hiring and firing, grievance procedures, employee growth and development, and confidentiality of employee, client, and organization records and information.

D. Administrative Policies

- (1) A nonprofit should have written board-approved administrative policies that are periodically reviewed by the board. At a minimum, these policies should address issues such as information technology, crisis and disaster planning, communications, and social media.

E. Risk Management and Insurance

- (1) Organizations should make every effort to manage risk and periodically assess the need for insurance coverage in light of the organization's activities and its financial capacity. A decision to forego general liability insurance coverage or Directors and Officers liability insurance coverage should be made only by the board of directors. The decision should be reflected in the minutes for the meeting at which the decision was made.

V. Resource Development

Guiding Principle: The responsibility for resource development is shared by the board and staff. Nonprofit organizations depend on an array of sources of financial support. An organization's resource development program should be maintained on a foundation of truthfulness and responsible stewardship. Its resource development policies should be consistent with its mission, compatible with its organizational capacity, and respectful of the interests of donors, prospective donors, and others providing resources to the organization.

A. Resource Plan

- (1) Nonprofits should have a resource development plan in place. This plan should outline a framework for ensuring appropriate financial resources for the organization, and a reasonable process to evaluate cost effectiveness of all resource development activities. Ideally, the resource plan should include diversified income sources to avoid dependence on a single source. The resource development plan should be board-approved, regularly reviewed, and in accordance with the organization's budget.
- (2) A nonprofit's fundraising costs should be reasonable over time. On average, over a five year period, a nonprofit should realize revenues from fundraising 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 their organization.

B. Sources of Income

When determining what types of income sources are pursued by a nonprofit to meet its mission, the organization should carefully consider the income source's impact on the population served, its demographics, and overall mission alignment. The organization should also assess these sources of income for feasibility and any associated risk.

C. Fundraising Activities

- (1) Solicitation and promotional materials should be accurate and truthful and should correctly identify the organization, its mission, and the intended use of the solicited funds.
- (2) All statements made by the nonprofit in its fundraising appeals about the use of a contribution should be honored.
- (3) 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.

D. Donor Relationships and Privacy

- (1) Nonprofits should respect the donor's right to determine how their name and contact information is used, including providing opportunities to remain anonymous, request that the organization curtail repeated mailings or telephone solicitations from in-house lists, and have their names removed from any mailing lists which are sold, rented, or exchanged.
- (2) Nonprofits must honor the known intentions of a donor regarding the use of donated funds.

E. Acceptance of Gifts

- (1) An organization should have policies in place to govern the acceptance and disposition of charitable or in-kind 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.

F. Fundraising on Behalf Of the Organization

- (1) Resource development 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 a paid professional fundraising consultant, organizations should only use the services of professional solicitors and fundraising consultants who are properly registered with the Bureau of Corporations and Charitable Organizations.
- (3) Organizations should exercise control over any staff, volunteers, consultants, contractors, other organizations, or businesses that are known to be soliciting contributions on behalf of the organization.

VI. Public Awareness, Engagement, and Advocacy

Guiding Principle: 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 stakeholders to participate in the public affairs of the community. When appropriate to advance the organization's mission, nonprofits should engage in promoting public participation in community affairs and elections. As such, they should communicate in an effective manner to educate, inform, and engage the public.

A. Educating and Engaging the Public

- (1) Information about the organization's mission, program activities, finances, board members, and staff should be easily accessible, accurate, and timely (i.e., updated at least annually).
- (2) Nonprofits should provide a meaningful opportunity for the public to communicate with a representative of the organization.
- (3) Nonprofits should assure that any educational or advocacy information provided to the media and policy-makers, or distributed broadly, is factually accurate and provides sufficient contextual information to be understood.

B. Advancing Your Mission through Public Policy and Advocacy

- (1) Nonprofits should have a written, board-approved policy on advocacy defining the process by which the organization determines positions on specific issues.
- (2) Working independently and in partnership, nonprofits should strive to influence public policies that affect the organization's ability to achieve its mission. 501(c) 3's must act within the limitations imposed by the Internal Revenue Service.

C. Engaging in Lobbying and Political Activity

- (1) In promoting public participation in community affairs, 501 (c) 3's must be diligent in assuring they do not participate or intervene in any political campaign on behalf of or in opposition to any candidate for public office.