

MEMORANDUM FOR: United States Federal Government  
Miracles of Development: Good Governance and Capacity Building

**GROUP 4**

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## ***POLICY MEMORANDUM***

**From:** *Group 4, ATHGO International Third Annual Global Forum in Washington D.C.*

**Subject:** *Accountability and Transparency of Nonprofit Organizations*

### **I. Action-Forcing Event**

There exists a lack of accountability in Nonprofit Organizations (NPOs) in the United States, allowing for the accumulation and misallocation of funds. A policy is proposed to measure and hold NPOs to a similar standard as for-profit organizations in terms of financial reporting and transparency.

### **II. Background/Analysis**

Currently, IRS forms required of NPOs primarily serve the purpose of achieving tax-exempt status, yet there are no government mandated requirements to report accounting audits or revenue information. Furthermore, NPOs are not required to disclose any financial records to the public. Nonprofit hospitals, which constitute under 1% of all charitable organizations in the U.S. make over 40% of all revenues of all NPOs. In past years, these hospitals have been scrutinized for providing care worth less than the financial benefits of their tax-exempt status. For example, the Cleveland Clinic recorded revenues of \$4.6 billion in 2006, and cannot provide documentation for the amount of charitable care they provided. Considering that NPOs have played an increasingly important role in the U.S. economy, accountability is a growing concern. Previous attempts at making NPOs more accountable involved taking away nonprofit status if revenues were too high. This is still not a complete policy, as current policy is not based on any standardized criteria by which tax-exempt status would be removed.

### **III. Recommendation**

A proposed solution is to create and implement policy that requires up-to-date financial statements to be regularly reported and made publicly available by all NPOs. Such transparency will foster accountability and good governance, which reduces the potential for corruption. Potential problems in implementation include a lack of knowledge in good accounting practices and the possibility of political or biased assessment of organizations. Also, if NPOs are dismantled following non-compliance with this new legislation, it could lead to a loss of jobs. These problems however, can be successfully minimized by developing standardized, apolitical criteria for defining and gaining nonprofit status.

Support and any necessary funding for the development of this policy can come from a variety of players including NPOs with an existing commitment to ethical practices who want to maintain and improve the accountability of their counterparts. Also, in order to sustain a standardized way to define and gain nonprofit status, a federal regulatory body similar to the Securities Exchange Commission (SEC) would be required to monitor revenue reports, perhaps through the creation of a “debarred” list of corrupt NPOs after allowing a “transition” period for reallocating revenues. This would increase donor confidence and provide a valuable resource to youth, the disadvantaged, and others who benefit from the work of nonprofits.

### **IV. Group’s Role**

The group’s role would be to lobby the federal government to implement the policy by soliciting the help of donors and existing NPOs.