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QUESTIONS

Nonprofits Should Ask to Assess Their Risk Management Processes

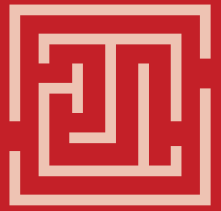
By Gerard Zack

All of your organization's managers should be able to identify the top five risks the organization faces and the strategies implemented to address each. Grantors, donors, program participants and other important stakeholders (not to mention auditors and regulators) all expect nonprofits to exercise sound risk management practices. Without them, organizations can face significant liabilities.

1

FIRST AND FOREMOST:

Does the organization have a process for the formal identification of risks?



2

WHAT'S THE LIKELIHOOD the identified risk events would occur?



3

WHAT'S THE IMPACT (financial and non-financial) if they do occur?



4

WHAT LEVEL OF COMFORT do we gain from our preventive and detective controls and processes in mitigating these risks?



5

WEIGHTING OF ASSESSMENT FACTORS: Should likelihood and impact be weighted equally? Should the various non-financial impact factors be given the same weighting as financial?

LIKELIHOOD
(Frequency or Probability)

X

IMPACT (Severity; How good or bad it is when it happens)

=



RISK RATING

Consider these additional factors in connection with your risk assessment:

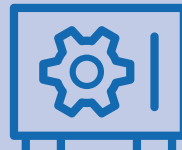
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RISK APPETITE:

What is your organization's desired balance of risk and return? Consider the distribution of risk across categories, including financial, market, operational and compliance risk.

7



VULNERABILITY:

What is your organization's level of preparedness, agility, adaptability and responsiveness? How quickly could risk events occur with little or no warning?

8



RISK INTERACTIONS:

Would this risk precipitate or impact another risk if the event occurs? Risks rarely exist in isolation

9



RISK TREND:

Is this risk increasing or decreasing in impact or likelihood since the last assessment? Risk trend should be considered in developing appropriate risk responses.

10



ROLES FOR EVERYBODY:

Think risk management is not your job? Board members, senior executives and every staff person all have roles to play. Do they all understand their responsibilities?

11



CROSS-FUNCTIONALITY OF RISK MANAGEMENT:

Do your risk management efforts include people from all functions? When risk management is done in silos, it's done poorly. Good governance means risk management is trained, enforced and updated across departments.